Hershey Foods
Annual Report 1993

About Hershey Foods Corporation

Hershey Foods Corporation and its subsidiaries are engaged in the manufacture, distribution and sale of consumer food products. The Corporation, primarily through its Hershey Chocolate U.S.A., Hershey Grocery, Hershey International and Hershey Pasta Group divisions and its Hershey Canada Inc. subsidiary, produces and distributes a broad line of chocolate, confectionery, grocery and pasta products. While these products are primarily manufactured and sold in North America, the Corporation also has manufacturing operations in Germany, the Netherlands, Belgium and Italy.

Contents

Financial Highlights

(in thousands of dollars except shares and per share amounts)

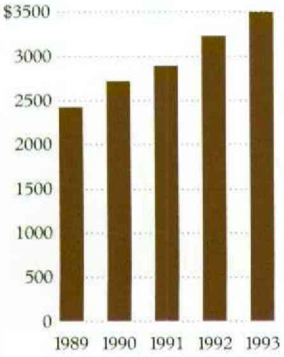
	1993	1992	Percent Change
Net sales	$3,488,249	$3,219,805	+8
Income before cumulative effect of accounting changes	297,233[a]	242,598	+23
Net cumulative effect of accounting changes	(103,908)	—	—
Net income	193,325	242,598	−20
Income per share[b]:			
Before accounting changes	3.31[a]	2.69	+23
Net cumulative effect of accounting changes	(1.16)	—	—
Net income	2.15	2.69	−20
Cash dividends paid per share:			
Common Stock	1.140	1.030	+11
Class B Common Stock	1.035	.935	+11
Cash dividends paid	100,499	91,444	+10
Capital additions	211,621	249,795	−15
Stockholders' equity at year-end	1,412,344	1,465,279	−4
Net book value per share at year-end	16.12	16.25	−1
Price per share of Common Stock at year-end	49	47	+4
Outstanding shares at year-end[b]	87,613,236	90,186,336	−3

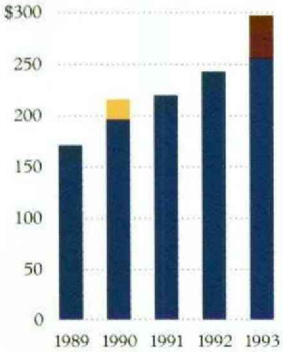
(a) Income before cumulative effect of accounting changes and income per share before accounting changes for 1993 included an after-tax gain of $40.6 million and $.45 per share, respectively, on the sale of the Corporation's investment interest in Freia Marabou a.s.

(b) Income per share has been computed based on weighted average outstanding shares of 89,757,135 for 1993 and 90,186,336 for 1992. Excluding treasury stock, outstanding shares as of December 31, 1993, consisted of 72,359,957 shares of Common Stock and 15,253,279 shares of Class B Common Stock.

On the Cover:
Introduced in 1993, Hershey's Hugs *chocolates (mini* Hershey's Kisses *chocolates hugged by white chocolate) is one of the most successful new products in the Corporation's history.*

Letter to Stockholders





Kenneth L. Wolfe (left), Chairman of the Board and Chief Executive Officer, and Joseph P. Viviano, President and Chief Operating Officer.

Nineteen ninety-three was an excellent, but challenging year for Hershey Foods Corporation. Excluding mandated accounting changes, the Corporation achieved record sales and earnings from operations despite a weak consumer market and higher federal income taxes. In addition, Hershey Chocolate U.S.A., Hershey Pasta Group and Hershey Canada Inc. made significant market share gains.

Throughout the year, the Corporation continued to utilize its manufacturing, sales, marketing, distribution and financial strengths to achieve its business objectives. All divisions achieved strong volume growth in sales. Most of Hershey Chocolate U.S.A.'s sales growth was provided by successful new products such as *Hershey's Hugs* chocolates, *Hershey's Cookies 'n' Mint* chocolate bar and *Amazin' Fruit* gummy bears. Hershey Pasta Group and Hershey Canada Inc. also made substantial volume gains during the year, although Hershey Canada's results were blunted somewhat by a decline in the value of the Canadian dollar. Hershey International's sales benefited from two acquisitions, as well as from excellent volume growth in its export business.

Pursuing its strategy to enhance our worldwide confectionery position, Hershey International acquired a leading non-chocolate confectionery business in Italy, Sperlari S.r.l., as well as a Dutch confectionery concern, Overspecht B.V. operating as OZF Jamin, which manufactures both chocolate and non-chocolate confectionery products. In the United States, Hershey Pasta Group acquired the Ideal Macaroni and Weiss Noodle companies which operate in the Cleveland market.

Despite the Corporation's strong earnings growth from operations, its net income for 1993 was below the prior year as a result of a change in accounting for post-retirement benefits and income taxes as required by the adoption of Statements of Financial Accounting Standards No. 106 and No. 109, respectively. This non-cash, one-time net charge was partially offset by a gain on the

sale of the Corporation's 18.6 percent interest in Freia Marabou a.s. In addition, the Corporation's effective income tax rate was increased retroactively to January 1, 1993, by passage of the 1993 Revenue Reconciliation Act, lowering earnings per share.

The Corporation initiated a stock repurchase program in July 1993 to acquire up to $200 million of its Common Stock. By the end of the year, approximately two-thirds of this program had been completed. Throughout the year substantial investments were made to increase manufacturing capacity for existing and new products, as well as to modernize and improve the efficiency of manufacturing facilities. The Corporation's higher-cost, long-term debt position was significantly reduced, thereby lowering its interest expense.

Two capital projects of particular importance were the West Hershey chocolate-processing plant and finished goods facility in Hershey, Pa., and the Winchester, Va., pasta plant. The completion of the chocolate processing facility provided the Corporation with a new, state-of-the-art manufacturing operation and the finished goods facility provided the capacity for the production of *Hershey's Hugs* chocolates, one of the most successful new products in the Corporation's history. The Winchester plant is a highly efficient pasta production facility and provides Hershey Pasta Group with greater manufacturing capacity at a significantly lower cost-per-pound.

Despite the high aggregate level of investment made in acquisitions, the stock repurchase program, capital additions and debt retirement, the Corporation's financial condition remained strong, and dividends paid to stockholders were increased for the 19th consecutive year. The 11.1 percent increase in the dividend rate was consistent with the Corporation's practice of paying approximately one-third of income from continuing operations to stockholders in the form of dividends.

Significant management changes were made during the year at both the corporate and divisional levels. Richard A. Zimmerman, Chairman of the Board and Chief Executive Officer, retired December 31, 1993, after 35 years of service. Succeeding him as Chairman of the Board and Chief Executive Officer was Kenneth L. Wolfe. Joseph P. Viviano succeeded Mr. Wolfe as President and Chief Operating Officer of the Corporation. Michael F. Pasquale replaced Mr. Viviano as President of Hershey Chocolate U.S.A., and William F. Christ, previously President of Hershey International, was named to succeed Mr. Pasquale as Senior Vice President and Chief Financial Officer.

Mr. Christ's successor at Hershey International was Jay F. Carr, previously Vice President of Marketing for Hershey Chocolate U.S.A. In addition, a new division called Hershey Grocery was formed to market and sell grocery products. Dennis N. Eshleman, previously Director of Marketing for Hershey Chocolate U.S.A., was named General Manager of this new division. These executive changes were part of a planned, orderly succession.

Additional executive changes occurred at Hershey Chocolate U.S.A. as a result of those discussed above, as well as an important reorganization of the business. The focus on markets was sharpened by creating three separate business units with responsibility for chocolate confectionery, non-chocolate confectionery and special market categories such as vending, concession, fund-raising and novelties.

Bonnie Guiton Hill, Dean, McIntire School of Commerce, University of Virginia, was elected to the Board of Directors on August 3, 1993. We welcome the wealth of knowledge and experience she brings.

While 1993 was another record year for the Corporation, it was characterized by intense competition in all of our markets. A highly skilled, dedicated workforce is required to meet the increasing challenges of the competitive marketplace. Hershey Foods is blessed with a team of talented individuals who possess the skills necessary to enable the Corporation to achieve its goals. We thank all of our employees for their superb performance during 1993 and look forward to meeting the challenges of 1994, our Centennial year.

Kenneth L. Wolfe
Chairman of the Board and
Chief Executive Officer

Joseph P. Viviano
President and
Chief Operating Officer

Corporate restructuring to emphasize chocolate and confectionery operations, along with achievement of major acquisitions: Peter Paul/Cadbury's U.S. confectionery operations (1988), Nabisco's Canadian confectionery and snack nut businesses (1987) and *Luden's* and *5th Avenue* brands (1986).

Commitment to development of people through increased emphasis on innovative training programs and cross-functional training opportunities.

Enhanced new product development process, resulting in creation of successful confectionery items and line extensions which have aided volume growth.

Significant strides in branded pasta market share leadership through acquisitions and expansion of existing brands into new domestic markets.

Commitment to modernization and expansion of chocolate and pasta manufacturing facilities.

Richard A. Zimmerman Retires

Richard A. Zimmerman has served in positions central to the affairs of Hershey Foods Corporation for most of his career — a period marked by steady growth, exciting opportunities and dynamic expansion. After 35 years of service, Mr. Zimmerman retired from Hershey Foods on December 31, 1993.

Born and raised in Lebanon, Pa., just a few miles from the Corporation's headquarters in Hershey, Mr. Zimmerman graduated from The Pennsylvania State University in 1953 and served in the U.S. Navy from 1953–56. After two years with Harrisburg National Bank & Trust, he joined Hershey Chocolate Corporation (as the Corporation was then named) in 1958 as an Administrative Assistant.

He was promoted in 1971 to Vice President, Hershey Foods Corporation (as the Corporation was re-named in 1968), and to President and Chief Operating Officer in 1976. He became President and Chief Executive Officer in 1984, and Chairman of the Board and Chief Executive Officer in 1985.

During his tenure as Chief Executive Officer, Hershey Foods restructured to focus on the production of chocolate, confectionery and pasta products; increased new product development efforts; and posted an exceptional record of financial results and increases in shareholder value. At the same time, Mr. Zimmerman's leadership strengthened and enhanced the fundamental values of the Corporation.

In addition, manufacturing capacity expansion, modernization, and quality and productivity improvements were key elements of his tenure. During this period, the Corporation also expanded its presence internationally both through increased exports of chocolate and confectionery products and the acquisition of manufacturing operations in Germany, Italy, Belgium and the Netherlands.

Mr. Zimmerman's legacy lies primarily in the people of Hershey Foods. He encouraged the creation of new development opportunities for employees and guided the Corporation in directions through which their services, talents and capabilities could best be utilized.

Throughout his career, Mr. Zimmerman has served on boards of numerous community, industry and educational institutions, including the Grocery Manufacturers of America, Inc.; The Pennsylvania State University's Board of Trustees; The Business Roundtable; Pennsylvanians For Effective Government; and the United Theological Seminary, among others.

He also has been the recipient of many notable honors, including The Pennsylvania State University's Alumni Fellow Award in 1978 and its Distinguished Alumni Award in 1987, along with the National Conference on Christians and Jews Brotherhood Award in 1988.

The strengths of Richard A. Zimmerman's leadership — combining personal integrity and dedication to quality and value — have contributed significantly to the success of Hershey Foods Corporation.

Hershey Foods at a Glance

	Major Products	*Market Position*
Hershey Chocolate U.S.A.	The Corporation's largest division produces such American favorites as *Hershey's* milk chocolate bars, *Hershey's Kisses* and *Hershey's Kisses With Almonds* chocolates, *Reese's* peanut butter cups, *Kit Kat* wafer bars, *Almond Joy* and *Mounds* candy bars, *York* peppermint patties and *Twizzlers* candy.	In 1993, Hershey Chocolate U.S.A. significantly enhanced its leadership position in the domestic confectionery market. While the Division competes primarily in the chocolate category of the U.S. market, it recently has begun to increase its presence in the non-chocolate confectionery category with the addition of *Amazin' Fruit* gummy bears.
Hershey Grocery	Products include *Hershey's* cocoa, *Hershey's* syrup, *Reese's* peanut butter, *Hershey's* baking chocolate, *Hershey's* baking chips, *Hershey's* drink boxes, *Hershey's* chocolate milk mix and *Hershey's* Chocolate Shoppe ice cream toppings.	Previously a part of Hershey Chocolate U.S.A., this newly organized division markets a full line of chocolate and chocolate-related baking products, ice cream toppings and milk modifiers, as well as peanut butter and refrigerated puddings. *Hershey's* chocolate syrup and *Hershey's* cocoa enjoy leadership positions in their respective categories.
Hershey Canada Inc.	The Division manufactures and markets many of the same brands as Hershey Chocolate U.S.A., using a slightly different formula for *Hershey's* milk chocolate to better satisfy Canadian tastes. Other brands unique to the Corporation's Canadian operations include *Brown Cow* and *Strawberry Cow* milk modifiers, *Oh Henry!* candy bars and *Glosette* candy, *Pot of Gold* boxed chocolates, *Life Savers* candy, *Breath Savers* mints and *Planters* peanuts.	Hershey Canada Inc. enjoys market leadership positions in the licorice candy, hard roll candy, sundae toppings, baking chips and shelled nuts categories. During 1993, the Division increased its market share in the all-important chocolate bar category. *Pot of Gold* boxed chocolates strengthened its leading brand position in the boxed chocolate category.
Hershey International	The Division exports *Hershey's* branded confectionery and grocery products to over 60 countries worldwide. It also manufactures and markets chocolate and confectionery products in Germany under the *Gubor* brand, in Mexico under the *Hershey's* brand, and in Italy under *Sperlari*, *Dondi*, *Scaramellini* and other brands. *Hershey's* branded products also are manufactured and sold in various other markets through licensing arrangements.	Hershey International is a leading non-chocolate confectioner in Italy and operates chocolate and confectionery businesses in Germany, Belgium, the Netherlands, Mexico and Japan. The Division also conducts a rapidly growing export and licensing business, utilizing Hershey Chocolate U.S.A. brands and products specifically developed for international markets.
Hershey Pasta Group	The Division produces a number of dry pasta products under such regional brands as *American Beauty*, *Light 'n Fluffy*, *P&R*, *Ronzoni*, *San Giorgio* and *Skinner*.	Hershey Pasta Group continued to gain market share throughout 1993 and today is vying for the leadership position in the domestic dry pasta category. Hershey Pasta Group's regional approach to marketing has been successful in establishing strong market share positions in selected markets.

Year's Highlights

Almost all of Hershey Chocolate U.S.A.'s sales gain was attributable to new products. Market share expanded despite a soft consumer market.

Excellent teamwork across all levels of the Corporation enabled the Division to successfully complete the launch of new products such as *Hershey's Cookies 'n' Mint* chocolate bar and *Amazin' Fruit* gummy bears, to introduce *Hershey's Hugs* chocolates, and to quickly bring a major new manufacturing facility on-line.

While marketing expenditures increased, profitability rose in line with sales.

New baking product introductions in 1993 included *Hershey's* semi-sweet chocolate raspberry chips, *Skor* toffee bits and *Hershey's* holiday bits, a candy-coated semi-sweet chocolate.

An expanded line of *Hershey's* drink flavors was introduced.

The establishment of this new division will permit a more focused selling and marketing strategy and should enhance opportunities for growth in this category of the Corporation's business.

Good growth was achieved in the Canadian chocolate bar and boxed chocolates markets. These gains were achieved despite a weak Canadian economy.

The declining value of the Canadian currency had an adverse effect on U.S. dollar results for Hershey Canada.

In the chocolate bar category, market share improvement was led by the new peanut butter *Oh Henry!* candy bar introduced in February 1993.

In September 1993, Hershey International completed the acquisition of Sperlari S.r.l., a confectionery company in Italy which manufactures and distributes a wide range of products. With two manufacturing facilities, Sperlari is a market leader in the non-chocolate confectionery category in Italy.

In October 1993, the Division completed the purchase of Overspecht B.V., a Dutch holding company with confectionery subsidiaries operating as OZF Jamin. It manufactures and distributes both chocolate and non-chocolate confectionery products, as well as cookies, biscuits and ice cream. OZF Jamin, with manufacturing plants in Belgium and the Netherlands, provides the manufacturing capacity for building upon the Corporation's existing presence in Europe.

Hershey International's businesses in Germany and Mexico were adversely affected by the weak economies in these markets.

Export sales continued their recent trend of excellent growth.

The Division opened a highly efficient, state-of-the-art pasta manufacturing facility in Winchester, Va.

In March 1993, the Division acquired the Ideal Macaroni and Weiss Noodle companies, which manufacture the leading pasta brands in the Cleveland, Ohio, area, a high consumption market. These businesses were successfully integrated into the Division's operations.

Significant sales volume growth for the year was achieved.

Late in 1993, the Division increased prices to partially offset significantly higher durum wheat costs.

About Our Brands...

Record-breaking sales increases for Hershey Foods' seasonal varieties of packaged candy were posted in 1993, reflecting the increasing popularity of these unique packages during traditional holiday seasons.

Hershey Foods is capitalizing on the success of the *Reese's* brand and its association with peanut-based confectionery and grocery products through such new products as *Reese's* peanut butter.

Hershey's chocolate drink is the number-one chocolate three-pack in the domestic aseptic beverage category. In 1993, new flavors such as chocolate marshmallow, banana split, strawberry, chocolate cherry and chocolate caramel were introduced to enhance Hershey Foods' market share in this category.

Hershey's Hugs chocolates, with and without almonds, were introduced in 1993. This is the first *Hershey's* product to combine white and milk chocolates.

The Corporation is building on the strength of its *Hershey's* brand name as a recognized source of quality and value in both confectionery and grocery products.

The Corporation's acquisitions of *York* peppermint patties, *Peter Paul Mounds* and *Almond Joy* candy bars (1988), and *5th Avenue* candy bars (1986) have expanded the Corporation's chocolate-covered product line.

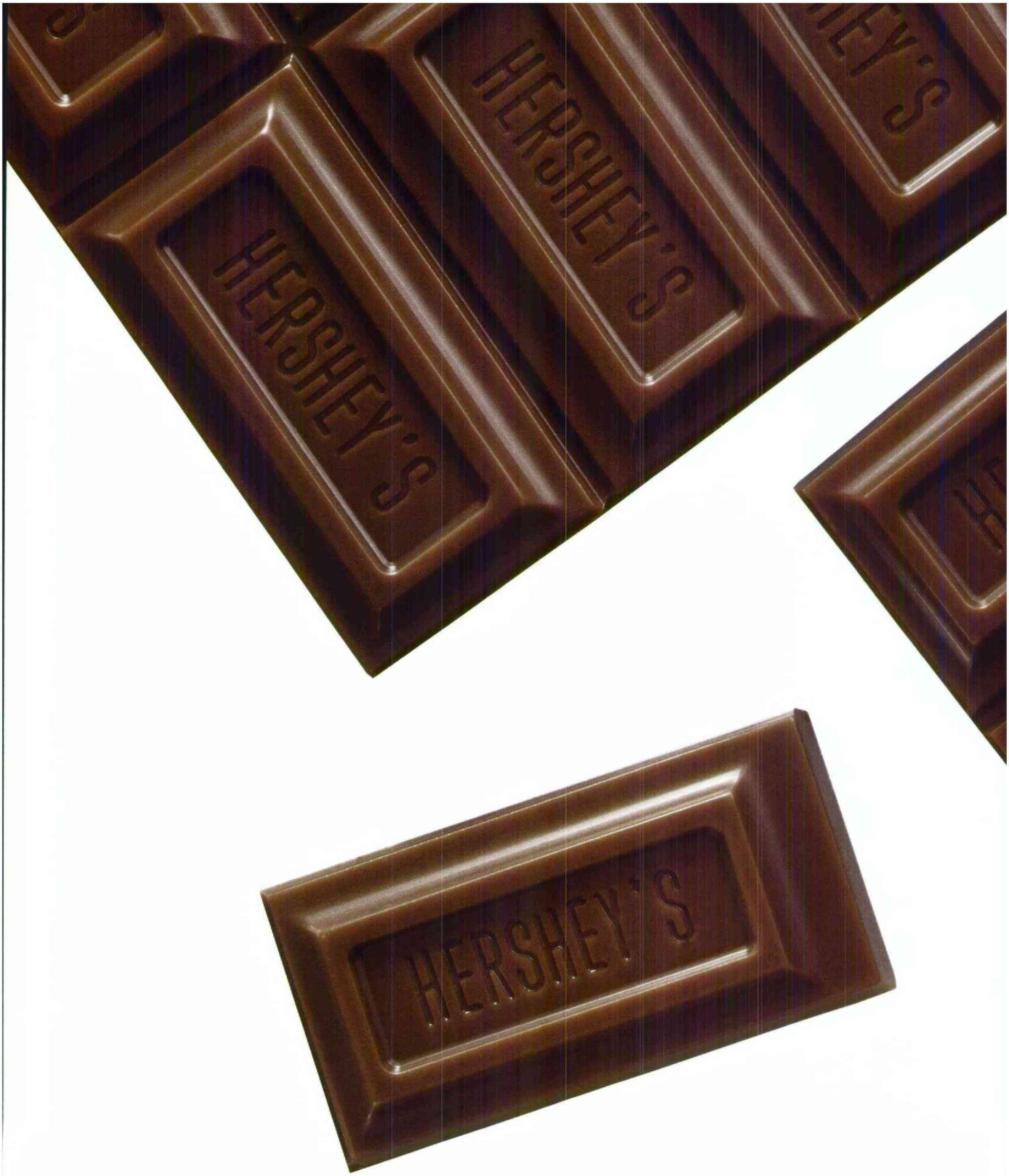
The acquisitions of *Gubor* branded products in Germany (1991) and the *Sperlari* brand in Italy (1993) are examples of Hershey Foods' expanding presence in Europe.

Pot of Gold boxed chocolates, made by Hershey Canada Inc. in a variety of distinctive flavor combinations, is the leading boxed chocolates brand in Canada.

A key to Hershey Pasta Group's success is its steady pursuit of a regional branded marketing strategy for its high-quality dry pasta products, many of which are brand leaders in their respective areas of the United States.

Introduced in 1992, ***Luden's*** berry assortment throat drops have been positively received by both customers and consumers. Hershey Foods is improving its position in the "good-tasting" throat drops category.

Twizzlers candy holds the number-one position in the domestic licorice candy category. New, exciting packaging will enhance consumer appeal in 1994.


HERSHEY'S
HERSHEY'S
HERSHEY'S
HERSHEY'S

Building on Our Strengths

Hershey Foods Corporation, celebrating its 100th anniversary in 1994, has positioned itself as a premier consumer foods company with powerful brands, high-quality products, superb distribution, leading market shares, strong cash flow and an ability to achieve solid earnings growth. By building on its strengths, the Corporation attempts to grow and prosper in all aspects of its businesses.

While the Corporation's Hershey Chocolate U.S.A., Hershey Grocery, Hershey Canada Inc. and Hershey International divisions comprise the majority of its operations, Hershey Foods also operates a successful, high-quality pasta business through its Hershey Pasta Group.

Chocolate and confectionery products generate over 85 percent of the Corporation's sales worldwide and over 90 percent of the Corporation's profits. Almost 75 percent of these sales are concentrated in the United States, the single largest confectionery market in the world.

Excellent consumer value

Despite the slow domestic economic recovery, Hershey Foods continues to strive for strong sales growth from core brands, new product introductions and acquisitions. Its primary goal is to grow its domestic confectionery business, expand the market and continue to seek gains in market share.

This growth is possible because confectionery products provide excellent consumer value. Consumers' real disposable income has not grown significantly in recent years. However, people still can afford to treat themselves to quality confectionery products because the domestic confectionery industry has maintained a good price/value relationship for consumers. A *Hershey's* milk chocolate bar, in real terms on a per-ounce basis, is about

***Hershey's Cookies 'n' Mint* chocolate bar, introduced in late 1992, is an extension of the traditional *Hershey's* milk chocolate bar. It combines milk chocolate with chocolate cookie bits and mint flavoring, a unique combination that has added excitement to the domestic chocolate bar category. This brand performed significantly beyond expectations during 1993.**

three percent less expensive today than it was ten years ago.

Hershey Chocolate U.S.A. has been able to provide excellent consumer value as a result of lower ingredient costs, modernization and productivity improvements. The Corporation has enhanced consumer value by supporting its core business and new product introductions with appropriate marketing investments, driving sales without compromising quality or profitability.

Pasta, an increasingly popular product with consumers in the United States, also provides excellent value because it is nutritious, convenient, versatile, inexpensive and tasty. In fact, per capita consumption of pasta has increased steadily in the United States over the past decade as the domestic dry pasta market has grown by two to three percent annually.

Powerful brands for growth

The Corporation's confectionery business has continued to increase market share thanks to the strength of its brand franchises. The appeal of the *Hershey's* brand, synonymous with chocolate and enjoyed by people of all ages for 100 years, is built on quality, consumer value and a unique flavor. The *Reese's* name, identified with *Reese's* peanut butter cups for nearly 70 years, provides easy recognition for the Corporation's expanding line of quality peanut-based products.

Another factor contributing to the growth of Hershey Foods' confectionery brands is product availability through varied consumer channels. Hershey Chocolate U.S.A.'s products are sold in over two million retail outlets, providing consumers with a purchase opportunity whenever and

Hershey Foods has become increasingly involved in the development of non-chocolate confectionery products as it aims for domestic market share growth in this category. *Amazin' Fruit* gummy bears, with real fruit juices, were introduced in 1992 and joined the Corporation's other non-chocolate confectionery items, *Twizzlers* and *Reese's Pieces* candies.

wherever the desire arises. Wide distribution is important because many of the Corporation's chocolate and confectionery products are purchased on impulse.

Hershey Foods' unique consumer base is another factor contributing to growth. Children and teenagers eat significantly more confectionery products on a per capita basis than do adults. Many young consumers seem to concentrate primarily on product taste and image. Hershey Foods' franchises are built on its ability to satisfy the taste preferences of consumers of all ages. This ability to successfully meet the needs of today's consumers through new product introductions and reformulations has helped gain millions of loyal consumers.

Hershey Foods' unique approach to the seasonal confectionery business also adds value. Along with the addition of seasonally colored wrappings on packaged items such as *Hershey's Kisses* chocolates, *Hershey's Miniatures* chocolates, *York* peppermint patties and others, the Corporation has created seasonal product configurations such as *Reese's* peanut butter Easter eggs,

Ann Kehley, at the Hazleton, Pa., plant, checks packaging of *Kit Kat* wafer bars, one of Hershey Chocolate U.S.A.'s leading brands.

Tracy Patteson (left) and Michelle Guerrisi Stempel confer in Hershey Pasta Group's Customer Service Department, where the Division's attention to customers' needs builds a competitive advantage.

peanut butter Christmas trees and peanut butter Halloween pumpkins.

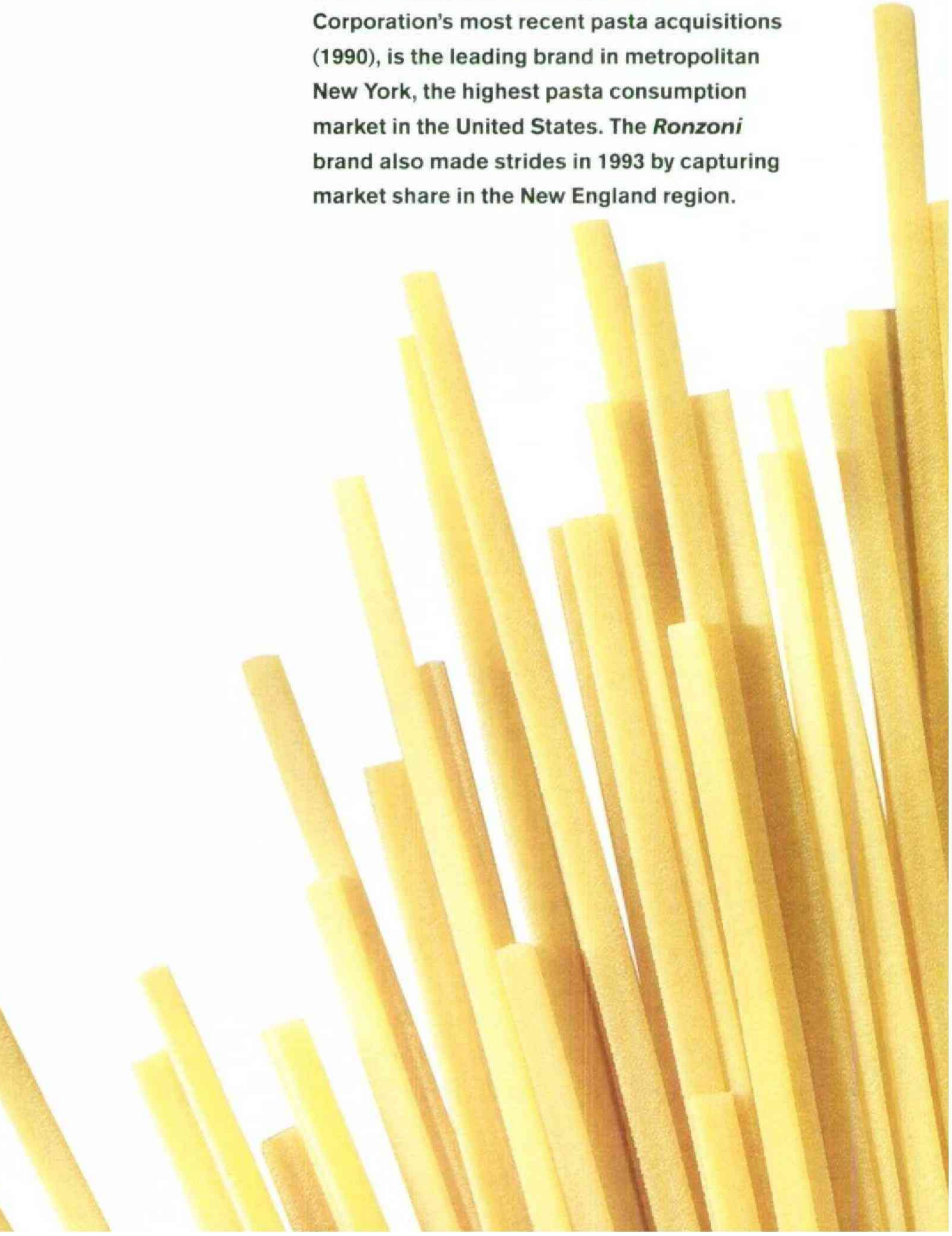
Hershey Pasta Group also is building upon the solid reputation behind its leading dry pasta brands. These brands, which have achieved valuable consumer loyalty over the years, include *American Beauty, Light 'n Fluffy, P&R, Ronzoni, San Giorgio* and *Skinner.* With the exception of the more recently established *Light 'n Fluffy* brand, Hershey Pasta Group's major brands have been satisfying consumers for nearly 85 years.

New business opportunities and new products

Another source of potential value to the *Hershey's* brand franchise is the Corporation's growing interest in the non-chocolate confectionery business. Comprising one-third of the $10 billion domestic market, the non-chocolate confectionery category provides an opportunity for Hershey Foods to bring its strengths of manufacturing, sales, marketing and distribution to this major section of the overall domestic confectionery industry.

Hershey Chocolate U.S.A. launched *Amazin' Fruit* gummy bears in August 1992. Made with real fruit juices and available in two flavor

Hershey Foods has been making high-quality pasta products since 1966 when it acquired the *San Giorgio* brand. The *Ronzoni* brand, one of the Corporation's most recent pasta acquisitions (1990), is the leading brand in metropolitan New York, the highest pasta consumption market in the United States. The *Ronzoni* brand also made strides in 1993 by capturing market share in the New England region.



combinations (regular and tropical), *Amazin' Fruit* is the first gummy bear product to be nationally advertised.

In addition to *Amazin' Fruit*, Hershey Chocolate U.S.A.'s other non-chocolate confectionery products are licorice items such as *Twizzlers* and *Nibs* candy and *Reese's Pieces* candy.

An important new product contributing to domestic volume growth is *Hershey's Cookies 'n' Mint* chocolate bar. Introduced nationally in November 1992, this extension of the traditional *Hershey's* milk chocolate bar combines milk chocolate with crunchy chocolate cookie bits and mint flavoring. Throughout 1993, this brand performed significantly beyond expectations.

The Corporation introduced *Hershey's Hugs* chocolates, mini *Hershey's Kisses* chocolates hugged by white chocolate, in August 1993. This is Hershey Foods' first product containing white chocolate and the first nationally distributed product containing a white chocolate and milk chocolate combination. Available with and without almonds, *Hershey's Hugs* have the traditional shape of *Hershey's Kisses* and are distinguishable by a striped silver or gold foil wrapper. *Hershey's Hugs* is one of the most successful new product introductions in the Corporation's history.

The extensions in 1993 of *Hershey's* drink box and baking chips lines with new flavor combinations are additional examples of volume growth through new product introductions. Hershey Canada's introduction of its peanut butter *Oh Henry!* candy bar exceeded sales expectations in 1993 and revitalized the brand, helping to expand the Corporation's presence in the Canadian chocolate bar category.

Brian Cobb monitors rollout of ***Hershey's Hugs*** **chocolates at Hershey Chocolate U.S.A.'s new, state-of-the-art chocolate processing facility in Hershey, Pa., which was completed in late 1992.**

Effective marketing programs

Over the past few years, Hershey Chocolate U.S.A.'s marketing programs have played a key role in its successful new product introductions. Well-designed and aggressively executed by its sales and customer service teams, these programs have been effective in widening the Corporation's market share lead in the United States.

Hershey Foods has made substantial marketing investments in recent years because it believes that protecting and enhancing its market share lead in the United States is critical to providing long-term profitable growth. The Corporation's successful implementation of marketing programs is driving sales growth for established brands. New products also are making a healthy incremental contribution, leading to higher market share.

For example, 1993 marked the first full year for distribution of Hershey Chocolate U.S.A.'s new "hanging bags" line of packaged candy. Many of the Division's packaged candy brands, including *Hershey's Kisses* chocolates, *Hershey's Miniatures* chocolate bars and *Rolo* caramels in milk chocolate, are included in these new pack-types. Positioned to secure new distribution in retail outlets which previously had never sold the Division's packaged candy, sales of these pack-types have exceeded expectations and have strengthened its packaged candy leadership position in the domestic confectionery industry.

Excellent distribution

The efficient mass distribution of Hershey Foods' products is another important element in maintaining sales growth and providing excellent customer service. Over the years, the Corporation has developed a domestic distribution network of strategically located manufacturing plants, distribution centers and customer service centers. In conjunction with its sales and marketing efforts, the efficient operation of Hershey Chocolate U.S.A.'s distribution system is instrumental in supporting promotional activity for new as well as established products.

Eddie McDonald uses computer technology to monitor production at Hershey Pasta Group's new, highly efficient pasta processing facility which opened in 1993 in Winchester, Va.

Acquisition growth and synergies

In addition to contributions from core brands, new products and new categories within the United States, Hershey Foods will continue efforts to increase sales from its European businesses in order to take advantage of this area's large confectionery market and high level of per capita consumption.

While Hershey Foods views international expansion as an avenue of profitable growth, it also plans to expand its share of the North American market. The Corporation recognizes that North America is its primary market.

Over the past 27 years, acquisitions of a number of pasta businesses have helped to increase Hershey Foods' presence in the domestic pasta market. These acquisitions have been fully integrated into Hershey Pasta Group while maintaining a regional brand strategy. This has enabled the Division to meet consumers' needs while reducing costs.

Manufacturing expertise

Hershey Foods completed the integration in 1993 of its two newest manufacturing facilities.

Hershey Chocolate U.S.A. expanded its use of advanced technological processes in chocolate-making with the opening of its West Hershey Plant in Hershey, Pa., complete with a variety of efficient, computer-controlled systems to ensure product quality and consistency.

Hershey Pasta Group opened its new pasta processing facility in Winchester, Va., a state-of-the-art facility that greatly enhances quality and efficiency. Through facility improvements at its manufacturing plants, the Division remains committed to being a high-quality, low-cost producer in the domestic pasta industry.

Both new facilities will allow the Corporation to continue to aggressively pursue a greater share of the domestic chocolate and pasta markets while meeting the manufacturing needs of its growing businesses.

Directors and Senior Management*

Board of Directors

Kenneth L. Wolfe
Chairman of the Board
and Chief Executive Officer

Howard O. Beaver, Jr.
Retired Chairman of the Board
Carpenter Technology Corporation
Reading, Pa.

Thomas C. Graham
President and
Chief Executive Officer
Armco Steel Company, LP
Middletown, Ohio

Bonnie Guiton Hill
Dean, McIntire School of
Commerce
University of Virginia
Charlottesville, Va.

John C. Jamison
Chairman
Mallardee Associates
a privately-held corporate
financial services business
Williamsburg, Va.

Dr. Sybil C. Mobley
Dean, School of Business
and Industry
Florida Agricultural and
Mechanical University
Tallahassee, Fla.

Francine I. Neff
Vice President and Director
NETS Inc.
a privately-held investment company
Albuquerque, N.M.

Rod J. Pera
Chairman, Hershey Trust Company
and Partner,
McNees, Wallace & Nurick
Harrisburg, Pa.

John M. Pietruski
Chairman of the Board
Texas Biotechnology Corp.
Houston, Texas

Vincent A. Sarni
Retired Chairman of the Board
and Chief Executive Officer
PPG Industries, Inc.
Pittsburgh, Pa.

H. Robert Sharbaugh
Retired Chairman
and Chief Executive Officer
Sun Company, Inc.
Radnor, Pa.

Joseph P. Viviano
President and
Chief Operating Officer

Audit Committee
H. Robert Sharbaugh, Chair
Howard O. Beaver, Jr.
Bonnie Guiton Hill
John C. Jamison
Francine I. Neff
Rod J. Pera

Committee on Directors and Corporate Governance
John C. Jamison, Chair
Howard O. Beaver, Jr.
Dr. Sybil C. Mobley
Vincent A. Sarni
Kenneth L. Wolfe

Compensation and Executive Organization Committee
John M. Pietruski, Chair
Thomas C. Graham
Francine I. Neff
Vincent A. Sarni
H. Robert Sharbaugh

Employee Benefit Committee
Thomas C. Graham, Chair
Bonnie Guiton Hill
Dr. Sybil C. Mobley
Rod J. Pera
John M. Pietruski

Executive Committee
Kenneth L. Wolfe, Chair
Joseph P. Viviano

Corporate Officers

Kenneth L. Wolfe
Chairman of the Board
and Chief Executive Officer

Joseph P. Viviano
President and
Chief Operating Officer

William F. Christ
Senior Vice President
and Chief Financial Officer

Dr. Charles L. Duncan
Vice President
Research and Development

Thomas C. Fitzgerald
Vice President and Treasurer

Sharon A. Lambly
Vice President
Human Resources

William Lehr, Jr.
Vice President and Secretary

Robert M. Reese
Vice President and
General Counsel

John B. Stiles
Vice President and
Corporate Controller

Dr. Barry L. Zoumas
Vice President
Science and Technology

Division Presidents

Jay F. Carr
President
Hershey International

Richard W. Meyers
President
Hershey Canada Inc.

Michael F. Pasquale
President
Hershey Chocolate U.S.A.

C. Mickey Skinner
President
Hershey Pasta Group

Pages 15 through 38 are printed on recycled paper.

*As of March 1, 1994

Management's Discussion and Analysis—Financial Review

Summary of Consolidated Operating Results

The Corporation achieved increased sales in 1993 and 1992. Net sales during this two-year period increased at a compound annual rate of 10%, primarily reflecting volume growth from new product introductions, existing confectionery and pasta products, international acquisitions, and modest confectionery and pasta price increases. Consolidated net sales during the last half of 1993 were heavily influenced by volume growth from new domestic confectionery products, acquisitions and promotional activities. These factors more than offset the effects of sluggish demand for existing brands in most of the Corporation's domestic and international markets which began late in the first quarter of 1993 and has continued to sporadically affect sales and income into early 1994.

Effective January 1, 1993, the Corporation adopted Statements of Financial Accounting Standards No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (FAS No. 106) and No. 109 "Accounting for Income Taxes" (FAS No. 109) by means of catch-up adjustments. The net charge associated with these changes in accounting had the effect of decreasing net income by approximately $103.9 million, or $1.16 per share.

In March 1993, the Corporation recorded a pre-tax gain of $80.6 million on the sale of its 18.6% investment interest in Freia Marabou a.s (Freia) which had the effect of increasing net income by $40.6 million.

In March 1992, Hershey Chocolate U.S.A. increased the wholesale price of its line of packaged candy products by approximately 5%, the first increase since 1984. This product line represented approximately 15% of the Corporation's annual sales in 1992. The price increase was intended to cover the rising costs of certain raw materials, petroleum-based packaging materials, fuel and employee benefits.

Income, excluding the 1993 catch-up adjustments for accounting changes and the impact of the after-tax gain on the sale of the Freia investment, increased at a compound annual rate of 8% during the two-year period. This increase was a result of the growth in sales and an improved gross profit margin, partially offset by higher selling, marketing and administrative expenses and an increase in the effective income tax rate.

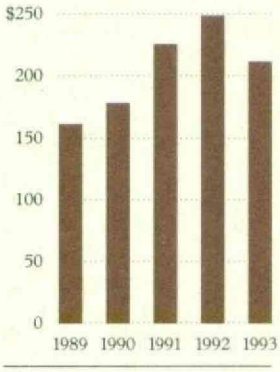
Summary of Financial Position and Liquidity

The Corporation's financial position remained strong during 1993. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 27% as of December 31, 1993 and 1992. The ratio of current assets to current liabilities was 1.1:1 as of December 31, 1993 and 1.3:1 as of December 31, 1992. The decrease in the current ratio reflects the sale of the Corporation's $179.1 million investment in Freia, and short-term borrowings for acquisitions and a share repurchase program, partially offset by the early repayment of long-term debt, which was classified as current as of December 31, 1992.

Historically, the Corporation's major source of financing has been cash generated from operations. Generally, seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

During the three-year period ended December 31, 1993, the Corporation's cash and cash equivalents decreased by $10.7 million. Total debt, including debt assumed, increased by $218.6 million during this same period reflecting the financing needs for several business acquisitions and a share repurchase program.

Capital Additions
(dollars in millions)



The Corporation anticipates that capital expenditures will be in the range of $200 million per annum during the next several years as a result of capacity expansion to support new products and continued modernization of existing facilities. As of December 31, 1993, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization.

Gross proceeds from the sale of the Corporation's Freia investment interest in the amount of $259.7 million were received in April 1993 and a portion thereof was used for the early repayment of long-term debt.

In the second quarter of 1993, the Corporation's Board of Directors approved a share repurchase program to acquire from time to time through open market or privately negotiated transactions up to $200 million of its Common Stock. During 1993, a total of 2,573,100 shares of Common Stock were acquired under the share repurchase program, of which 264,000 shares were retired and the remaining 2,309,100 shares were held as treasury stock as of December 31, 1993.

As of December 31, 1993, $100 million of debt securities remained available for issuance under a Form S-3 Registration Statement which was declared effective in June 1990. In November 1993, the Corporation filed another Form S-3 Registration Statement under which it may offer, on a delayed or continuous basis, up to $400 million of additional debt securities. Proceeds from any offering of the $500 million of debt securities available under these shelf registrations may be used to reduce existing commercial paper borrowings, finance capital additions, and fund the share repurchase program and future business acquisitions.

In 1991, the Corporation established an employee stock ownership trust (ESOP) to serve as the primary vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used to purchase 1,193,816 shares of the Corporation's Common Stock which it had previously acquired through open market purchases.

Acquisitions and Divestiture

Operating results during the period were impacted by the following:

- October 1993—Completed the purchase of the outstanding shares of Overspecht B.V. (OZF Jamin) for approximately $20.2 million, plus the assumption of approximately $13.4 million in debt. OZF Jamin manufactures chocolate and non-chocolate confectionery products, cookies, biscuits and ice cream for distribution primarily to customers in the Netherlands and Belgium.

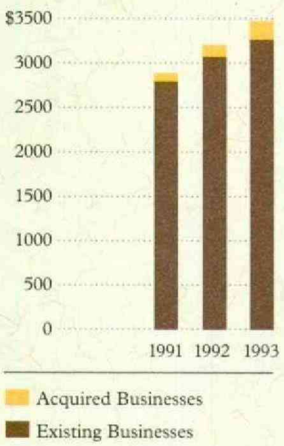
- September 1993—Completed the acquisition of the Italian confectionery business of Heinz Italia S.p.A. (Sperlari) for approximately $130.0 million. Sperlari is a leader in the Italian non-chocolate confectionery market and manufactures and distributes a wide range of confectionery products, including sugar candies and traditional products for special occasions such as nougat and gift boxes. Products are marketed under the *Sperlari, Dondi, Scaramellini* and other brands.

- March 1993—Acquired certain assets of the Cleveland area Ideal Macaroni and Weiss Noodle companies (Ideal/Mrs. Weiss) for approximately $14.6 million.

- April 1992—Completed the sale of Hershey do Brasil Participacoes Ltda., a holding company which owned a 41.7% equity interest in Petybon S.A., to the Bunge & Born Group for approximately $7.0 million. Petybon S.A., located in Brazil, is a producer of pasta, biscuits and margarine products.

- October 1991—Purchased the shares of Nacional de Dulces, S. A. de C.V. (subsequently renamed Hershey Mexico, S. A. de C.V.) owned by its joint venture partner, Grupo Carso, S. A. de C.V. Prior to this transaction, the Corporation owned 50% of the stock. Hershey Mexico produces, imports and markets chocolate products for the Mexican market under the *Hershey's* brand name.

Contribution to Net Sales of Businesses Acquired 1991-1993
(dollars in millions)



- May 1991—Acquired from Dairymen, Inc. certain assets of its ultra-high temperature fluid milk-processing business (aseptically-packaged drink business), including a Savannah, Georgia manufacturing facility.

- May 1991—Completed the acquisition of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH (Gubor) chocolate business from H. Bahlsens Keksfabrik KG. Gubor, which operates two manufacturing plants in Germany, produces and markets high-quality assorted pralines and seasonal chocolates under the *Gubor* brand name. The transaction was effective as of January 1, 1991.

A further discussion of these acquisitions and divestiture can be found in Note 2 to the consolidated financial statements.

Other Items

The Corporation's net sales, net income and cash flows are affected by business acquisitions, new product introductions, the timing of promotional activities and price increases. These factors generally benefited financial results in 1993. However, sluggish demand for existing brands and an increasingly seasonal sales bias resulted in a decline in net sales and net income in the second quarter of 1993 and, to the extent these conditions continue, has the potential to similarly impact financial results as the Corporation enters 1994.

The most significant raw material used in the production of the Corporation's chocolate and confectionery products is cocoa beans. Generally, the Corporation has been able to offset the effects of increases in the cost of this raw material through selling price increases or reductions in product weights. Conversely, declines in the cost of cocoa beans have served as a source of funds to maintain selling price stability, enhance consumer value through increases in product weights, respond to competitive activity, develop new products and markets, and offset rising costs of other raw materials and expenses.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. During the past decade, the market prices of cocoa beans and cocoa futures trended lower as a result of the worldwide cocoa bean crop exceeding demand during most years. However, cocoa crops for the most recent three years fell somewhat short of demand resulting in supply deficits.

Prices in 1993 were relatively stable because of the excess stocks produced earlier in the decade, but may begin to trend upward in 1994 as stocks decline further. The Corporation's costs during 1994 will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

The major raw material used in the manufacture of pasta products is semolina milled from durum wheat. The Corporation purchases semolina from commercial millers and is also engaged in custom milling arrangements to obtain sufficient quantities of high-quality semolina. A decrease in plantings and adverse weather conditions in the Midwest reduced the quantity and quality of the 1993 durum wheat crop, resulting in substantial cost increases. Supplies are expected to remain tight and prices may continue at the recent high levels pending the outcome of the new crop harvest in the fall of 1994.

Capital Structure

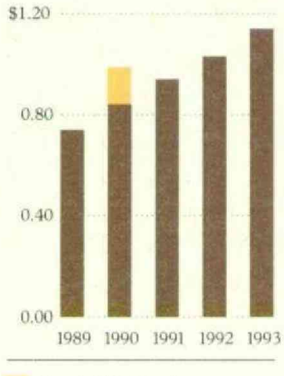
The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

The Corporation's Common Stock is listed on the New York Stock Exchange (NYSE), which has a rule generally prohibiting dual classes of common stock. The Corporation's dual class structure has been grandfathered under this rule. In February 1994, the NYSE released for public comment a new uniform voting rights policy proposed by the Chairman of the Securities and Exchange Commission and agreed to by the American Stock Exchange and the National Association of Securities Dealers. The policy would provide that the voting rights of existing holders of publicly traded common stock cannot be disparately reduced or restricted through any corporate action or issuance. Under the proposed policy the Corporation's and other listed companies' existing dual class structures would be grandfathered.

Market Prices and Dividends

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $100.5 million in 1993 and $91.4 million in 1992. The annual dividend rate on the Common Stock is $1.20 per share, an increase of 11% over the 1992 rate of $1.08 per share. The 1993 dividend represented the 19th consecutive year of Common Stock dividend increases.

Dividends Paid Per Share of Common Stock
(dollars)



On February 8, 1994, the Corporation's Board of Directors declared a quarterly dividend of $.30 per share of Common Stock payable on March 15, 1994, to stockholders of record as of February 25, 1994. It is the Corporation's 257th consecutive Common Stock dividend. A quarterly dividend of $.2725 per share of Class B Stock was also declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the NYSE under the ticker symbol "HSY." Approximately 29.3 million shares of the Corporation's Common Stock were traded during 1993.

The closing price of the Common Stock on December 31, 1993 was $49. The Class B Stock is not publicly traded. There were 32,859 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1993.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

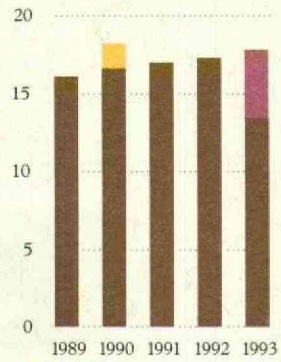
	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1993				
1st Quarter	$ .270	$ .2450	$55⅞	$46½
2nd Quarter	.270	.2450	54⅝	45¾
3rd Quarter	.300	.2725	51⅞	43½
4th Quarter	.300	.2725	54¾	48⅝
Total	$1.140	$1.0350		
1992				
1st Quarter	$ .245	$ .2225	$45¼	$39⅞
2nd Quarter	.245	.2225	42⅛	38¼
3rd Quarter	.270	.2450	45½	41⅝
4th Quarter	.270	.2450	48⅜	43½
Total	$1.030	$ .9350		

*NYSE - Composite Quotations for Common Stock by calendar quarter.

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 17.8% in 1993. Over the most recent five-year period, the return has ranged from 16.1% in 1989 to 17.8% in 1993. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the after-tax gain on business restructuring in 1990, and both the catch-up adjustment for accounting changes and the after-tax gain on the sale of the investment in Freia in 1993.

Return on Average Stockholders' Equity
(percent)



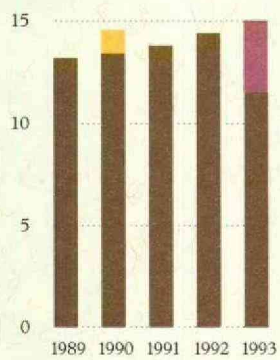
Gain on Business Restructuring, Net

Catch-up Adjustment for Accounting Changes and Gain on Sale of Investment Interest

Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 15.0% in 1993. Over the most recent five-year period, the return has ranged from 13.2% in 1989 to 15.0% in 1993. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income, excluding the after-tax gains on business restructuring and the sale of the investment in Freia, the catch-up adjustment for accounting changes, and the after-tax effect of interest on long-term debt.

Return on Average Invested Capital
(percent)



Gain on Business Restructuring, Net

Catch-up Adjustment for Accounting Changes and Gain on Sale of Investment Interest

Hershey Foods Corporation

Consolidated Statements of Income

(in thousands of dollars except per share amounts)

For the years ended December 31,	1993	1992	1991
Net Sales	$3,488,249	$3,219,805	$2,899,165
Costs and Expenses:			
Cost of sales	1,995,502	1,833,388	1,694,404
Selling, marketing and administrative	1,035,519	958,189	814,459
Total costs and expenses	3,031,021	2,791,577	2,508,863
Gain on Sale of Investment Interest	80,642	—	—
Income before Interest, Income Taxes and Accounting Changes	537,870	428,228	390,302
Interest expense, net	26,995	27,240	26,845
Income before Income Taxes and Accounting Changes	510,875	400,988	363,457
Provision for income taxes	213,642	158,390	143,929
Income before Cumulative Effect of Accounting Changes	297,233	242,598	219,528
Net cumulative effect of accounting changes	(103,908)	—	—
Net Income	$ 193,325	$ 242,598	$ 219,528
Income Per Share:			
Before accounting changes	$ 3.31	$ 2.69	$ 2.43
Net cumulative effect of accounting changes	(1.16)	—	—
Net income	$ 2.15	$ 2.69	$ 2.43

Cash Dividends Paid Per Share:			
Common Stock	$ 1.140	$ 1.030	$ .940
Class B Common Stock	1.035	.935	.850

The notes to consolidated financial statements are an integral part of these statements.

Management's Discussion and Analysis—Results of Operations

Net Sales

Net sales rose $268.4 million or 8% in 1993 and $320.6 million or 11% in 1992. The increase in 1993 primarily reflected volume growth from new products and business acquisitions, and pasta selling price increases, which more than offset the effects of sluggish demand for existing brands in most of the Corporation's domestic and international markets. The increase in 1992 was due to volume growth from existing brands, sales of new products, confectionery price increases and the consolidation of Hershey Mexico, the remaining shares of which were acquired in late 1991.

Costs and Expenses

Cost of sales as a percent of net sales decreased from 58.4% in 1991 to 56.9% in 1992 but increased to 57.2% in 1993. The decrease in gross margin in 1993 reflected higher manufacturing costs related to new products, incremental manufacturing, shipping and depreciation costs associated with the completion and start-up of new manufacturing and distribution facilities, and recurring expenses associated with a change in accounting for post-retirement benefits. These higher costs and expenses were partially offset by lower costs for certain major raw materials and pasta price increases. The increase in gross margin in 1992 was primarily due to lower costs for certain major raw materials, confectionery price increases and manufacturing efficiencies.

Selling, marketing and administrative costs increased in 1993 primarily as a result of higher promotion expenses, associated with the sales volume growth and the introduction of new products, and incremental selling expenses related to business acquisitions. Selling, marketing and administrative costs increased in 1992, primarily as a result of higher promotion and advertising expenses related to sales volume growth and the introduction of new products.

Gain on Sale of Investment Interest

In March 1993, the Corporation sold its 18.6% investment interest in Freia to Kraft General Foods Holdings Norway, Inc. and recorded a pre-tax gain of $80.6 million. This gain had the effect of increasing net income by $40.6 million.

Interest Expense, Net

Net interest expense decreased by $.2 million in 1993 as lower long-term interest expense, reflecting lower debt balances, and higher interest income more than offset a decrease in capitalized interest. Interest income increased due in part to interim investments of a portion of the proceeds from the sale of the investment in Freia. Capitalized interest was below the prior year reflecting the completion of major long-term construction projects in late 1992 and early 1993 and a corresponding reduction in expenditures qualifying for interest capitalization in 1993.

Net interest expense was $.4 million higher in 1992 than 1991, due to higher levels of short-term borrowings, offset partially by lower short-term interest rates, lower long-term interest expense and an increase in capitalized interest. The increase in short-term debt was a result of the Corporation's May 1992 purchase of its 18.6% investment interest in Freia and interim borrowings to finance capital additions. Long-term interest expense was below 1991 reflecting repayments of long-term debt. A cumulative increase in capital expenditures resulted in significantly higher capitalized interest in 1992 versus 1991.

Provision for Income Taxes

The Corporation's effective income tax rate was 41.8%, 39.5% and 39.6% in 1993, 1992 and 1991, respectively. The increase in 1993 was largely a result of the relatively high income taxes associated with the gain on the sale of the Corporation's Freia investment and an increase in the Federal statutory income tax rate as provided for in the Revenue Reconciliation Act of 1993, which reduced net income by $5.5 million. The effective income tax rate was lower in 1992 than in 1991 as a tax benefit associated with the sale of the Corporation's equity interest in its Brazilian joint venture more than offset the full-year impact in 1992 of a mid-1991 increase in the Pennsylvania corporate income tax rate.

Net Cumulative Effect of Accounting Changes

Effective January 1, 1993, the Corporation adopted FAS No. 106 and FAS No. 109 by means of catch-up adjustments. These changes in accounting had the effect of decreasing net income by approximately $103.9 million or $1.16 per share.

Net Income

Net income decreased by 20% in 1993. Excluding the impact of the after-tax gain on the 1993 sale of the Freia investment and the 1993 catch-up adjustments for accounting changes, income increased $14.1 million or 6% in 1993. Net income increased $23.1 million or 11% in 1992. Income as a percent of net sales, after excluding the 1993 net cumulative effect of accounting changes and the after-tax gain on the sale of the investment interest in Freia, was 7.4% in 1993, 7.5% in 1992, and 7.6% in 1991.

Hershey Foods Corporation

Consolidated Statements of Cash Flows

(in thousands of dollars)

For the years ended December 31,	1993	1992	1991
Cash Flows Provided from (Used by) Operating Activities			
Net income	$ 193,325	$ 242,598	$ 219,528
Adjustments to reconcile net income to net cash provided from operations:			
Net cumulative effect of accounting changes	103,908	—	—
Depreciation and amortization	113,064	97,087	85,413
Deferred income taxes	11,047	21,404	20,654
Gain on sale of investment interest	(80,642)	—	—
Changes in assets and liabilities, net of effects from business acquisitions:			
Accounts receivable—trade	(100,957)	(13,841)	(6,404)
Inventories	32,347	(20,262)	(43,949)
Accounts payable	(12,809)	(10,715)	4,070
Other assets and liabilities	110,259	(20,707)	94,270
Other, net	9,399	649	(26,242)
Net Cash Provided from Operating Activities	378,941	296,213	347,340
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(211,621)	(249,795)	(226,071)
Business acquisitions	(164,787)	—	(44,108)
Sale (purchase) of investment interest	259,718	(179,076)	—
Other, net	(1,947)	6,581	(1,510)
Net Cash (Used by) Investing Activities	(118,637)	(422,290)	(271,689)
Cash Flows Provided from (Used by) Financing Activities			
Net increase in short-term debt	67,485	201,425	56,489
Long-term borrowings	1,130	1,259	23,620
Repayment of long-term debt	(104,792)	(32,173)	(27,861)
Loan to ESOP	—	—	(47,902)
Proceeds from sale of Common Stock to ESOP	—	—	47,902
Cash dividends paid	(100,499)	(91,444)	(83,401)
Repurchase of Common Stock	(131,783)	—	—
Net Cash Provided from (Used by) Financing Activities	(268,459)	79,067	(31,153)
Increase (Decrease) in Cash and Cash Equivalents	(8,155)	(47,010)	44,498
Cash and Cash Equivalents as of January 1	24,114	71,124	26,626
Cash and Cash Equivalents as of December 31	$ 15,959	$ 24,114	$ 71,124
Interest Paid	$ 32,073	$ 29,515	$ 24,468
Income Taxes Paid	171,586	151,490	119,038

The notes to consolidated financial statements are an integral part of these statements.

Management's Discussion and Analysis—Cash Flows

Summary

Over the past three years, cash provided from operating activities and the net cash from the purchase and subsequent sale of the Corporation's investment interest in Freia exceeded cash requirements for capital additions and dividend payments by $140.3 million. Total debt, including debt assumed, increased during the period by $218.6 million, reflecting the financing needs for several business acquisitions and a share repurchase program. Cash and cash equivalents decreased by $10.7 million during the period.

The Corporation's income and, consequently, cash provided from operations during the year is affected by seasonal sales patterns, the timing of new product introductions, business acquisitions and price increases. Chocolate, confectionery and grocery seasonal and holiday-related sales have typically been highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, the Corporation's seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

Operating Activities

During the past three years, depreciation and amortization have increased significantly as a result of continuous investment in capital additions and business acquisitions. Cash requirements for accounts receivable and inventories have tended to fluctuate during the three-year period based on sales during December and inventory management practices. The change in cash required for or provided from other assets and liabilities between the years was primarily related to commodities transactions, the timing of payments for accrued liabilities, including income taxes, and a corporate-owned life insurance program.

Investing Activities

Investing activities included capital additions, several business acquisitions, and the purchase and subsequent sale of an 18.6% investment interest in Freia in 1992 and 1993, respectively. The income taxes paid in 1993 on the Freia gain were included in operating activities. Capital additions during the past three years included the purchase of manufacturing equipment, construction of new manufacturing and office facilities and expansion of existing facilities. Businesses acquired during the past three years included OZF Jamin, Sperlari and Ideal/Mrs. Weiss in 1993, and Gubor, the aseptically-packaged drink business and Hershey Mexico in 1991. Cash used for business acquisitions represented the purchase price paid and consisted of the current assets, property, plant and equipment, and intangibles acquired, net of liabilities assumed.

Financing Activities

Financing activities included debt borrowings and repayments, payment of dividends, the repurchase of Common Stock in 1993, and ESOP transactions in 1991. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to fund seasonal working capital requirements, business acquisitions, the purchase of the Freia investment interest and a share repurchase program. A portion of the proceeds received from the sale of the Freia investment was used to repay long-term debt in 1993. In February 1991, the Corporation issued $100 million of Debentures under its Form S-3 Registration Statement which was declared effective in June 1990. A portion of the proceeds from issuance of the Debentures was used to repay $76.7 million of domestic commercial paper borrowings which were classified as long-term debt as of December 31, 1990.

During the second quarter of 1993, the Corporation's Board of Directors approved a share repurchase program to acquire from time to time through open market or privately negotiated transactions up to $200 million of Common Stock. During 1993, a total of 2,573,100 shares were repurchased at an average price of $51 per share.

During 1991, the Corporation established an ESOP to serve as the primary vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used to purchase, at a market price of $40⅛ per share, 1,193,816 shares of the Corporation's Common Stock which it had previously acquired through open market purchases.

Hershey Foods Corporation

Consolidated Balance Sheets

(in thousands of dollars)

December 31,	1993	1992
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,959	$ 24,114
Accounts receivable—trade	294,974	173,646
Inventories	453,442	457,179
Deferred income taxes	85,548	46,451
Prepaid expenses and other	39,073	59,515
Investment interest	—	179,076
Total current assets	888,996	939,981
Property, Plant and Equipment, Net	1,460,904	1,295,989
Intangibles Resulting from Business Acquisitions	473,408	399,768
Other Assets	31,783	37,171
Total assets	$2,855,091	$2,672,909
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 125,658	$ 127,175
Accrued liabilities	301,989	240,816
Accrued income taxes	35,603	5,682
Short-term debt	337,286	259,045
Current portion of long-term debt	13,309	104,224
Total current liabilities	813,845	736,942
Long-term Debt	165,757	174,273
Other Long-term Liabilities	290,401	92,950
Deferred Income Taxes	172,744	203,465
Total liabilities	1,442,747	1,207,630
Stockholders' Equity:		
Preferred Stock, shares issued: none in 1993 and 1992	—	—
Common Stock, shares issued: 74,669,057 in 1993 and 74,929,057 in 1992	74,669	74,929
Class B Common Stock, shares issued: 15,253,279 in 1993 and 15,257,279 in 1992	15,253	15,257
Additional paid-in capital	51,196	52,129
Cumulative foreign currency translation adjustments	(13,905)	2,484
Unearned ESOP compensation	(41,515)	(44,708)
Retained earnings	1,445,609	1,365,188
Treasury—Common Stock shares, at cost: 2,309,100 in 1993 and none in 1992	(118,963)	—
Total stockholders' equity	1,412,344	1,465,279
Total liabilities and stockholders' equity	$2,855,091	$2,672,909

The notes to consolidated financial statements are an integral part of these balance sheets.

Management's Discussion and Analysis—Financial Condition

Assets

Total assets increased $182.2 million or 7% as of December 31, 1993, primarily as a result of capital additions and intangibles from business acquisitions, offset somewhat by a decrease in current assets.

Current assets decreased by $51.0 million as a result of the sale of the $179.1 million investment interest in Freia, which was classified as a current asset as of December 31, 1992. This decrease was partially offset by increases in accounts receivable, resulting from inclusion of the accounts receivable of acquired businesses and the timing and payment terms associated with sales occurring toward the end of the year, and current deferred income taxes.

The $164.9 million net increase in property, plant and equipment included $65.6 million of assets acquired through business acquisitions. Capital additions totaled $211.6 million in 1993, while depreciation amounted to $100.1 million.

The increase in intangibles resulting from business acquisitions as of December 31, 1993, principally reflected the preliminary accounting for 1993 business acquisitions partially offset by amortization of intangibles.

Liabilities

Total liabilities increased by $235.1 million or 19% as of December 31, 1993, primarily due to higher long-term liabilities associated with the adoption of FAS No. 106 and higher current liabilities.

Current liabilities increased by $76.9 million principally as a result of liabilities assumed as part of business acquisitions and increases in accrued liabilities related to marketing promotions, benefits, compensation, and timing of income tax payments. A decline in current portion of long-term debt more than offset an increase in short-term debt. Current portion of long-term debt decreased by $90.9 million, reflecting the early retirement of $95.2 million of long-term debt which had been classified as current as of December 31, 1992. The increase in short-term debt was a result of commercial paper borrowings to finance capital additions and the share repurchase program.

The deferred income tax liability as of December 31, 1993 was provided using the liability method as required by FAS No. 109, which was adopted by the Corporation effective January 1, 1993. The decrease of $30.7 million reflected the impact of adopting FAS No. 109 and deferred income tax benefits associated with the adoption of FAS No. 106.

Stockholders' Equity

Total stockholders' equity declined by 4% in 1993 primarily due to the repurchase of Common Stock. Total stockholders' equity has increased at a compound annual rate of 9% over the past ten years.

Hershey Foods Corporation

Consolidated Statements of Stockholders' Equity

(in thousands of dollars)

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Cumulative Foreign Currency Translation Adjustments	Unearned ESOP Compen-sation	Retained Earnings	Treasury Common Stock	Total Stockholders' Equity
Balance as of January 1, 1991	$—	$74,910	$15,276	$49,249	$26,195	$ —	$1,077,907	$ —	$1,243,537
Net income							219,528		219,528
Dividends:									
Common Stock, $.940 per share							(70,426)		(70,426)
Class B Common Stock, $.850 per share							(12,975)		(12,975)
Foreign currency translation adjustments					229				229
Conversion of Class B Common Stock into Common Stock		11	(11)						—
Incentive plan transactions				(446)					(446)
Employee stock ownership trust transactions				3,706		(47,902)			(44,196)
Balance as of December 31, 1991	—	74,921	15,265	52,509	26,424	(47,902)	1,214,034	—	1,335,251
Net income							242,598		242,598
Dividends:									
Common Stock, $1.030 per share							(77,174)		(77,174)
Class B Common Stock, $.935 per share							(14,270)		(14,270)
Foreign currency translation adjustments					(23,940)				(23,940)
Conversion of Class B Common Stock into Common Stock		8	(8)						—
Incentive plan transactions				(741)					(741)
Employee stock ownership trust transactions				361		3,194			3,555
Balance as of December 31, 1992	—	74,929	15,257	52,129	2,484	(44,708)	1,365,188	—	1,465,279
Net income							193,325		193,325
Dividends:									
Common Stock, $1.140 per share							(84,711)		(84,711)
Class B Common Stock, $1.035 per share							(15,788)		(15,788)
Foreign currency translation adjustments					(16,389)				(16,389)
Conversion of Class B Common Stock into Common Stock		4	(4)						—
Incentive plan transactions				(1,269)					(1,269)
Employee stock ownership trust transactions				487		3,193			3,680
Repurchase of Common Stock		(264)		(151)			(12,405)	(118,963)	(131,783)
Balance as of December 31, 1993	$—	$74,669	$15,253	$51,196	$(13,905)	$(41,515)	$1,445,609	$(118,963)	$1,412,344

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements. Certain reclassifications have been made to prior year amounts to conform to the 1993 presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. Investments in affiliated companies are accounted for using the equity method.

Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

Commodities Futures and Options Contracts

In connection with the purchasing of major commodities (principally cocoa and sugar) for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the risk of future price increases. These futures and options contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

Intangibles Resulting from Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over their estimated useful lives.

Accumulated amortization of intangible assets resulting from business acquisitions was $73.4 million and $61.2 million as of December 31, 1993 and 1992, respectively.

Foreign Currency Translation

Results of operations for international entities are translated using the average exchange rates during the period. For international entities operating in non-highly inflationary economies, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Cumulative Foreign Currency Translation Adjustments."

Foreign Exchange Contracts

The Corporation enters into foreign exchange contracts to hedge transactions denominated in international currencies and to hedge payment of intercompany transactions with its non-domestic subsidiaries. Gains and losses are accounted for as part of the underlying transactions. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

As of December 31, 1993, the Corporation had contracts maturing in 1994 and 1995 to purchase $39.1 million in foreign currency at contracted forward rates, primarily British sterling and Canadian dollars, and to sell $3.6 million in foreign currency at contracted forward rates. As of December 31, 1992, the Corporation had contracts maturing in 1993 and 1994 to purchase $57.2 million in foreign currency at contracted forward rates, primarily Canadian dollars and British sterling, and to sell $238.9 million in foreign currency at contracted forward rates, related to Norwegian kroner to be received from the sale of the Corporation's investment interest in Freia Marabou a.s (Freia) as discussed below.

License Agreements

The Corporation has entered into license agreements under which it has access to proprietary technology and manufactures and/or markets and distributes certain products. The rights under these agreements are extendable on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

2. Acquisitions and Divestiture

In October 1993, the Corporation completed the purchase of the outstanding shares of Overspecht B.V. (OZF Jamin) for approximately $20.2 million, plus the assumption of approximately $13.4 million in debt. OZF Jamin manufactures chocolate and non-chocolate confectionery products, cookies, biscuits and ice cream for distribution primarily to customers in the Netherlands and Belgium.

In September 1993, the Corporation completed the acquisition of the Italian confectionery business of Heinz Italia S.p.A. (Sperlari) for approximately $130.0 million. Sperlari is a leader in the Italian non-chocolate confectionery market and manufactures and distributes a wide range of confectionery products, including sugar candies and traditional products for special occasions such as nougat and gift boxes. Products are marketed under the *Sperlari, Dondi, Scaramellini* and other brands.

In March 1993, the Corporation acquired certain assets of the Cleveland area Ideal Macaroni and Weiss Noodle companies for approximately $14.6 million.

In October 1991, the Corporation purchased the shares of Nacional de Dulces, S. A. de C.V. (NDD) owned by its joint venture partner, Grupo Carso, S. A. de C.V., for $10.0 million. Prior to the acquisition, the Corporation owned 50% of the outstanding stock of NDD. Subsequent to the acquisition, NDD was renamed Hershey Mexico, S. A. de C.V. (Hershey Mexico). Hershey Mexico produces, imports and markets chocolate products for the Mexican market under the *Hershey's* brand name.

In May 1991, the Corporation purchased certain assets of Dairymen, Inc.'s ultra-high temperature fluid milk-processing business, including a Savannah, Georgia manufacturing facility for $2.2 million, plus the assumption of $8.5 million in debt.

Also in May 1991, the Corporation completed the acquisition of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH (Gubor) chocolate business from H. Bahlsens Keksfabrik KG for $31.9 million, plus the assumption of $9.0 million in debt. Gubor manufactures and markets high-quality assorted pralines and seasonal chocolates in Germany. The acquisition was effective as of January 1, 1991.

In accordance with the purchase method of accounting, the purchase prices of the acquisitions summarized above were allocated to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values which may be revised at a later date. Total liabilities assumed, including debt, were $54.0 million in 1993 and $40.4 million in 1991. Results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the results of these acquisitions been included in consolidated results for the entire length of each period presented, the effect would not have been material.

In April 1992, the Corporation completed the sale of Hershey do Brasil Participacoes Ltda., a holding company which owned a 41.7% equity interest in Petybon S. A., to the Bunge & Born Group for approximately $7.0 million. Petybon S. A., located in Brazil, is a producer of pasta, biscuits and margarine products. The sale resulted in a modest pre-tax gain and a reduction in the effective income tax rate of .8% for 1992.

3. Gain on Sale of Investment Interest

In May 1992, the Corporation completed the acquisition of an 18.6% investment interest in Freia for $179.1 million. The investment was accounted for under the cost method in 1992. In October 1992, the Corporation tendered its investment interest in response to a Kraft General Foods Holdings Norway, Inc. (KGF) bid to acquire Freia subject to certain conditions, including approval by the Norwegian government.

KGF received approval of its ownership and, in March 1993, the Corporation recorded a pre-tax gain of $80.6 million on the sale of its Freia investment. This gain had the effect of increasing net income by $40.6 million. Gross proceeds from the sale in the amount of $259.7 million were received in April 1993.

4. Interest Expense

Interest expense, net consisted of the following:

For the years ended December 31, *(in thousands of dollars)*	1993	1992	1991
Long-term debt and lease obligations	$23,016	$ 30,435	$ 32,252
Short-term debt	11,854	11,328	7,403
Capitalized interest	(4,646)	(12,055)	(10,386)
	30,224	29,708	29,269
Interest income	(3,229)	(2,468)	(2,424)
Interest expense, net	$26,995	$ 27,240	$ 26,845

5. Short-term Debt

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. The Corporation maintained lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to $560 million as of December 31, 1993 and up to $377 million as of December 31, 1992 at the lending banks' prime commercial interest rates or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the Corporation. The Corporation had combined domestic commercial paper borrowings and short-term international bank loans against these lines of credit of $337.3 million and $259.0 million as of December 31, 1993 and 1992, respectively.

Lines of credit were supported by commitment fee arrangements. The fees were generally ⅛% per annum of the commitment. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $17.2 million and $22.0 million as of December 31, 1993 and 1992, respectively.

6. Long-term Debt

Long-term debt consisted of the following:

December 31, *(in thousands of dollars)*	1993	1992
Medium-term Notes, 8.45% to 9.92%, due 1994–1998	$ 55,400	$ 55,400
9.5% Sinking Fund Debentures due 2009	—	42,000
9.125% Sinking Fund Debentures due 2016	—	50,000
8.8% Debentures due 2021	100,000	100,000
Other obligations, net of unamortized debt discount	23,666	31,097
Total long-term debt	179,066	278,497
Less—current portion	13,309	104,224
Long-term portion	$165,757	$174,273

As of December 31, 1992, current portion of long-term debt included $95.2 million of debt which, in 1993, the Corporation retired early using a portion of the proceeds from the sale of its investment interest in Freia.

Aggregate annual maturities during the next five years are: 1994, $13.3 million; 1995, $7.8 million; 1996, $2.1 million; 1997, $15.9 million; and 1998, $25.5 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

7. Income Taxes

Effective January 1, 1993, the Corporation adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (FAS No. 109), which requires the use of the liability method of accounting for deferred income taxes. This change in accounting as of January 1, 1993, which was recorded as a catch-up adjustment, increased net income by $8.2 million or $.09 per share.

The provision for income taxes, which included the effect of an increase in the Federal statutory income tax rate as provided for in the Revenue Reconciliation Act of 1993 but excluded the FAS No. 109 catch-up adjustment, was as follows:

For the years ended December 31, *(in thousands of dollars)*	1993	1992	1991
Current:			
Federal	$141,541	$104,223	$ 96,074
State	37,358	30,968	25,128
International	23,696	1,795	2,073
Current provision for income taxes	202,595	136,986	123,275
Deferred:			
Federal	2,949	11,770	12,618
State	1,764	4,579	6,111
International	6,334	5,055	1,925
Deferred provision for income taxes	11,047	21,404	20,654
Total provision for income taxes	$213,642	$158,390	$143,929

The tax effects of the significant temporary differences which comprised the deferred tax assets and liabilities were as follows:

December 31, 1993 *(in thousands of dollars)*	Deferred Income Tax Assets	Deferred Income Tax (Liabilities)	Net Deferred Income Tax Assets (Liabilities)
Current:			
Post-retirement benefit obligations	$ 3,478	$ —	
Accrued expenses and other reserves	70,678	—	
Other	16,555	(5,163)	
Total current deferred income taxes	90,711	(5,163)	$ 85,548
Non-current:			
Depreciation	—	(214,566)	
Post-retirement benefit obligations	78,190	—	
Accrued expenses and other reserves	24,800	—	
Other	10,744	(71,912)	
Total non-current deferred income taxes	113,734	(286,478)	(172,744)
Total deferred income taxes	$204,445	$(291,641)	$ (87,196)

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

For the years ended December 31,	1993	1992	1991
Federal statutory tax rate	35.0%	34.0%	34.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	6.2	6.0	5.5
Sale of investment interest	1.5	—	—
Non-deductible acquisition costs	0.6	0.9	1.0
Sale of equity interest	—	(0.8)	—
Corporate-owned life insurance	(1.0)	(1.0)	(1.1)
Other, net	(0.5)	0.4	0.2
Effective income tax rate	41.8%	39.5%	39.6%

8. Retirement Plans

The Corporation and its subsidiaries sponsor several defined benefit retirement plans covering substantially all employees. Plans covering most domestic salaried and hourly employees provide retirement benefits based on individual account balances which are increased annually by pay-related and interest credits. Plans covering certain non-domestic employees provide retirement benefits based on career average pay, final pay, or final average pay as defined within the provisions of the individual plans. The Corporation also participates in several multi-employer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws, respectively. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities.

Pension expense included the following components:

For the years ended December 31, *(in thousands of dollars)*	1993	1992	1991
Service cost	$ 27,835	$ 22,858	$ 20,056
Interest cost on projected benefit obligations	26,423	24,098	22,148
Investment return on plan assets	(46,232)	(12,331)	(53,627)
Net amortization and deferral	18,519	(15,245)	30,161
Corporate sponsored plans	26,545	19,380	18,738
Multi-employer plans	612	580	1,231
Other	678	630	645
Total pension expense	$ 27,835	$ 20,590	$ 20,614

The funded status and amounts recognized in the consolidated balance sheets for the retirement plans were as follows:

(in thousands of dollars)	December 31, 1993 Assets Exceeded Accumulated Benefits	December 31, 1993 Accumulated Benefits Exceeded Assets	December 31, 1992 Assets Exceeded Accumulated Benefits	December 31, 1992 Accumulated Benefits Exceeded Assets
Actuarial present value of:				
Vested benefit obligations	$144,608	$204,861	$1,643	$319,635
Accumulated benefit obligations	$155,838	$221,867	$1,987	$344,091
Actuarial present value of projected benefit obligations	$185,926	$231,972	$3,255	$375,715
Plan assets at fair value	166,727	181,813	2,566	305,255
Plan assets less than projected benefit obligations	19,199	50,159	689	70,460
Net gain (loss) unrecognized at date of transition	(5,440)	4,381	79	(1,306)
Prior service cost and amendments not yet recognized in earnings	94	(11,556)	(6)	(12,815)
Unrecognized net loss from past experience different than that assumed	(7,171)	(13,948)	(708)	(29,664)
Minimum liability adjustment	—	14,866	—	18,999
Accrued pension liability	$ 6,682	$ 43,902	$ 54	$ 45,674

The projected benefit obligations for the plans were determined principally using a discount rate of 7.0% as of December 31, 1993 and 1992. For both 1993 and 1992 the assumed long-term compensation increase rate and the assumed long-term rate of return on plan assets were primarily 6.0% and 9.5%, respectively.

9. Post-retirement Benefits

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees subject to pre-defined limits. Substantially all of the Corporation's domestic employees become eligible for these benefits at retirement with a pre-defined benefit being available at an early retirement date. The post-retirement medical benefit is contributory for pre-Medicare retirees and for most post-Medicare retirees retiring on or after February 1, 1993. Retiree contributions are based upon a combination of years of service and age at retirement. The post-retirement life insurance benefit is non-contributory.

Effective January 1, 1993, the Corporation adopted Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (FAS No. 106) which requires that the cost of post-retirement benefits be accrued during employees' working careers. The Corporation elected to adopt FAS No. 106 by means of a catch-up adjustment which had the effect of decreasing net income by $112.2 million, or $1.25 per share, after a deferred tax benefit of $76.3 million.

Prior to 1993, the Corporation accounted for such benefits as an expense as paid. Expense recognized under FAS No. 106 during 1993, incrementally reduced net income by $5.9 million and consisted of the following components (in thousands of dollars):

Service cost	$ 3,997
Interest cost on projected benefit obligations	12,897
Amortization	(280)
Total	$16,614

Obligations are unfunded and the actuarial present value of accumulated post-retirement benefit obligations recognized in the consolidated balance sheet as of December 31, 1993 was as follows (in thousands of dollars):

Retirees	$ 87,765
Fully eligible active plan participants	31,852
Other active plan participants	65,069
Total	184,686
Plan amendments	5,746
Unrecognized net gain from past experience different than that assumed	7,976
Accrued post-retirement benefits	$198,408

The accumulated post-retirement benefit obligations were determined using a discount rate of 7.5% as of December 31, 1993. The assumed average health care cost trend rate used in measuring the accumulated post-retirement benefit obligations as of December 31, 1993 was principally 12% in 1993, gradually declining to approximately 7% over ten years. A one percentage point increase in the average health care cost trend rate would increase the accumulated post-retirement benefit obligations as of December 31, 1993 by $18.3 million and the sum of the service and interest costs by $2.2 million.

As part of its long-range financing plans, the Corporation, in 1989, implemented a corporate-owned life insurance program covering most of its domestic employees. After paying employee death benefits, proceeds from this program will be available for general corporate purposes and may be used to offset future employee benefits costs, including retiree medical benefits. The Corporation's investment in corporate-owned life insurance policies was recorded net of policy loans in other assets, and interest accrued on the policy loans was included in accrued liabilities as of December 31, 1993. Net life insurance expense, including interest expense, was included in selling, marketing and administrative expenses.

10. Employee Stock Ownership Trust

In 1991, the Corporation established an employee stock ownership trust (ESOP) to serve as the primary vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used to purchase, at a market price of $40⅛ per share, 1,193,816 shares of the Corporation's Common Stock which it had previously acquired through open market purchases.

During 1993 and 1992, the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 79,588 shares of Common Stock each year. As of December 31, 1993 the ESOP held 152,406 of allocated shares and 1,034,640 of unallocated shares.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $40⅛ per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1993 and 1992 was $2.0 million and $2.3 million, respectively. Dividends paid on unallocated ESOP shares were $1.2 million in 1993 and $.9 million in 1992. The unearned ESOP compensation balance of $41.5 million as of December 31, 1993 represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

11. Capital Stock and Net Income Per Share

As of December 31, 1993, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1993, a combined total of 89,922,336 shares of both classes of common stock had been issued of which 87,613,236 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1993.

The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1993, 1992 and 1991, a total of 4,000, 7,775, and 11,350 shares, respectively, of Class B Stock were converted into Common Stock.

Hershey Trust Company, as Trustee for Milton Hershey School (Hershey Trust), as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 21,398,312 shares of the Common Stock, and as Trustee

for Milton Hershey School, held 15,153,003 shares of the Class B Stock as of December 31, 1993, and was entitled to cast approximately 77% of the total votes of both classes of the Corporation's common stock. Hershey Trust must approve the issuance of shares of Common Stock or any other action which would result in the Hershey Trust not continuing to have voting control of the Corporation.

During the second quarter of 1993, the Corporation's Board of Directors approved a share repurchase program to acquire from time to time through open market or privately negotiated transactions up to $200 million of Common Stock. During 1993, a total of 2,573,100 shares were repurchased at an average price of $51 of which 264,000 shares were retired and the remaining 2,309,100 shares were held as treasury stock as of December 31, 1993. Of the total purchased, 2,000,000 shares were acquired from Hershey Trust for approximately $103.1 million.

Net income per share has been computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding during the year. Average shares outstanding were 89,757,135 for 1993 and 90,186,336 for 1992 and 1991.

12. Incentive Plan

The long-term portion of the 1987 Key Employee Incentive Plan (Plan) provides for grants or awards to senior executives and key employees of one or more of the following: performance stock units, non-qualified stock options (stock options), stock appreciation rights and restricted stock units. The Plan also provides for the deferral of performance stock unit awards by participants.

As of December 31, 1993, a total of 190,855 contingent performance stock units and restricted stock units had been granted for potential future distribution, primarily related to three-year cycles ending December 31, 1993, 1994 and 1995. Deferred performance stock units and accumulated dividend amounts totaled 255,288 shares as of December 31, 1993.

Stock options are granted at exercise prices of not less than 100% of the fair market value of a share of Common Stock at the time the option is granted and are exercisable for periods no longer than ten years from the date of grant. Each option may be used to purchase one share of Common Stock. No compensation expense is recognized under the stock options portion of the Plan.

No stock appreciation rights had been granted or awarded as of December 31, 1993. Stock option activity was as follows:

	Shares under Options	
	Number of Shares	Option Price per Share
Outstanding—January 1, 1991	834,960	$23¾ to 35⅜
Granted	59,800	$36¼
Exercised	(30,135)	$23¾ to 28
Cancelled	(7,500)	$35⅜
Outstanding—December 31, 1991	857,125	$23¾ to 36¼
Granted	939,000	$41⅛ to 44¾
Exercised	(69,650)	$23¾ to 35⅜
Cancelled	(9,500)	$44¾
Outstanding—December 31, 1992	1,716,975	$25⅜ to 44¾
Granted	116,600	$47 to 53
Exercised	(82,850)	$25⅜ to 35⅜
Cancelled	(20,300)	$44¾
Outstanding—December 31, 1993	1,730,425	$25⅜ to 53

13. Supplemental Income Statement Information

Supplemental income statement information is provided in the table below. These costs were expensed in the year incurred.

For the years ended December 31, *(in thousands of dollars)*	1993	1992	1991
Promotion	$444,546	$398,577	$325,465
Advertising	130,009	137,631	117,049
Maintenance and repairs	85,845	79,563	72,192
Depreciation expense	100,124	84,434	72,735
Rent expense	24,524	23,960	23,288
Research and development	26,151	24,203	22,770

Rent expense pertains to all operating leases which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancellable operating leases with a remaining term in excess of one year as of December 31, 1993, were: 1994, $12.3 million; 1995, $12.0 million; 1996, $11.4 million; 1997, $11.1 million; 1998, $10.7 million; 1999 and beyond, $102.8 million.

Amounts for taxes other than payroll and income taxes, amortization of intangibles resulting from business acquisitions, and royalties were less than 1% of net sales.

14. Supplemental Balance Sheet Information

Accounts Receivable—Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances and anticipated discounts of $12.5 million and $10.4 million as of December 31, 1993 and 1992, respectively.

Inventories

The Corporation values the majority of its inventories under the last-in, first-out (LIFO) method and the remaining inventories at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $310.6 million as of December 31, 1993 and $350.4 million as of December 31, 1992 and all inventories were stated at amounts that did not exceed realizable values.

Total inventories were as follows:

December 31, *(in thousands of dollars)*	1993	1992
Raw materials	$209,570	$243,243
Goods in process	37,261	30,965
Finished goods	265,616	231,313
Inventories at FIFO	512,447	505,521
Adjustment to LIFO	(59,005)	(48,342)
Total inventories	$453,442	$457,179

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $171.1 million and $196.9 million as of December 31, 1993 and 1992, respectively. Major classes of property, plant and equipment were as follows:

December 31, *(in thousands of dollars)*	1993	1992
Land	$ 48,239	$ 40,163
Buildings	430,199	385,545
Machinery and equipment	1,563,326	1,371,729
	2,041,764	1,797,437
Accumulated depreciation	580,860	501,448
Property, plant and equipment, net	$1,460,904	$1,295,989

Accrued Liabilities
Accrued liabilities were as follows:

December 31, *(in thousands of dollars)*	1993	1992
Payroll and other compensation	$ 81,909	$ 63,088
Advertising and promotion	89,819	72,735
Other	130,261	104,993
Total accrued liabilities	$301,989	$240,816

Other Long-term Liabilities
Other long-term liabilities were as follows:

December 31, *(in thousands of dollars)*	1993	1992
Accrued post-retirement benefits	$189,959	$ —
Other	100,442	92,950
Total other long-term liabilities	$290,401	$92,950

15. Segment Information

The Corporation operates in a single consumer foods line of business, encompassing the domestic and international manufacture, distribution and sale of chocolate, confectionery, grocery and pasta products.

Operations in Canada and Europe represent the majority of the Corporation's international business. Historically, transfers of product between geographic areas have not been significant. Net sales, income before interest, income taxes and accounting changes, and identifiable assets by geographic segment were as follows:

For the years ended December 31, *(in thousands of dollars)*	1993	1992	1991
Net sales:			
Domestic	$3,080,329	$2,871,438	$2,566,448
International	407,920	348,367	332,717
Total	$3,488,249	$3,219,805	$2,899,165
Income before interest, income taxes and accounting changes:			
Domestic	$ 446,565	$ 419,317	$ 381,549
International	10,663	8,911	8,753
Gain on sale of investment interest	80,642	—	—
Total	$ 537,870	$ 428,228	$ 390,302
Identifiable assets as of December 31:			
Domestic	$2,281,766	$2,353,230	$2,003,425
International	573,325	319,679	338,397
Total	$2,855,091	$2,672,909	$2,341,822

16. Quarterly Data (Unaudited)

Summary quarterly results were as follows:

(in thousands of dollars except per share amounts)

Year 1993	First	Second	Third	Fourth
Net sales	$ 897,788	$618,430	$935,662	$1,036,369
Gross profit	387,019	254,834	390,846	460,048
Income before cumulative effect of accounting changes	105,055	26,025	73,971	92,182
Net cumulative effect of accounting changes	(103,908)	—	—	—
Net income	1,147[a]	26,025	73,971	92,182
Income per share[b]:				
Before accounting changes	1.16	.29	.82	1.04
Net cumulative effect of accounting changes	(1.15)	—	—	—
Net income	.01	.29	.82	1.04
Weighted average shares outstanding	90,186	90,186	90,124	88,489

Year 1992	First	Second	Third	Fourth
Net sales	$ 800,967	$621,840	$827,475	$ 969,523
Gross profit	337,529	266,791	352,792	429,305
Net income	58,924	34,475	66,880	82,319
Net income per share	.65	.39	.74	.91
Weighted average shares outstanding	90,186	90,186	90,186	90,186

(a) Net income for the first quarter and year 1993 included the net cumulative effect of accounting changes for post-retirement benefits and income taxes of $(103.9) million and an after-tax gain on the sale of the investment interest in Freia of $40.6 million. Net income per share was similarly impacted.

(b) Quarterly income per share amounts for 1993 do not total to annual amounts due to the changes in weighted average shares outstanding during the year.

Responsibility for Financial Statements

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 26, 1993. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

Report of Independent Public Accountants

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993, appearing on pages 20, 22, 24, 26, and 27 through 36. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Notes 7 and 9 to the consolidated financial statements, effective January 1, 1993, the Corporation changed its methods of accounting for income taxes and post-retirement benefits other than pensions.

Arthur Andersen & Co.

New York, N.Y.
January 28, 1994

Investor Information

Stockholders

As of December 31, 1993, Hershey Foods Corporation had outstanding 72,359,957 shares of Common Stock and 15,253,279 shares of Class B Common Stock.

Year	Year-end Common Stock and Class B Common Stock Holders	Approximate Annual Composite Trading Volume
1993	32,859	29,338
1992	31,642	24,146
1991	31,029	27,975
1990	30,052	31,024
1989	29,998	41,220

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hershey." Options on the Corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

1993 (calendar quarter)	Common Stock Price High	Common Stock Price Low	Common Stock Price Close	Dividends Paid Common	Dividends Paid Class B
1st Quarter	\$55⅞	\$46½	\$53⅝	\$.270	\$.2450
2nd Quarter	54⅝	45¾	47⅛	.270	.2450
3rd Quarter	51⅞	43½	49⅞	.300	.2725
4th Quarter	54¾	48⅝	49	.300	.2725

Dividend Policy

Dividends on Hershey Foods Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors, and are normally paid in the months of March, June, September and December.

The dividend to be paid on the Common Stock in March 1994 will be the 257th consecutive regular dividend paid by the Corporation. The dividend rate has been increased annually for 19 consecutive years. Historically, the Corporation has targeted approximately one-third of income from continuing operations as dividends to stockholders.

Dividend Reinvestment Service

The Corporation offers an Automatic Dividend Reinvestment Service to registered holders of Hershey Foods Common Stock. This service provides a convenient method of increasing share ownership without paying brokerage commissions or service fees. The Corporation pays all commissions and fees associated with stock purchases made with reinvested dividends. However, under Internal Revenue Service regulations, any fees paid on behalf of stockholders are considered taxable income and will be included on their Form 1099-DIV Statement of Dividends and Distributions. Participants also may make voluntary cash payments of up to $20,000 annually, for which there are only nominal brokerage commissions and service fees. Approximately one-third of Hershey Foods Corporation's registered stockholders are enrolled in this Automatic Dividend Reinvestment Service. For more information, contact:

Chemical Bank
Dividend Reinvestment Department
P.O. Box 3069
Church Street Station
New York, NY 10116-3069
(800) 851-4216

Safekeeping of Stock Certificates

Your stock certificate is a valuable document and should be kept in a safe place such as a safe deposit box. Stock certificates should not be signed until sold or transferred to another person. For tax purposes, please keep a record of each certificate, including the original cost. This record should be kept in a separate place from the certificates.

Stockholder Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the Corporation's Transfer Agent, Chemical Bank, listed on page 41.

Financial Information

Security analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed on page 41.

Eleven-Year Consolidated Financial Summary

(all dollar and share amounts in thousands except market price and per share statistics)	10-Year Compound Growth Rate	1993	1992	1991	1990	1989
Summary of Operations[a]						
Net Sales	10.5%	$3,488,249	3,219,805	2,899,165	2,715,609	2,420,988
Cost of Sales	9.0%	$1,995,502	1,833,388	1,694,404	1,588,360	1,455,612
Selling, Marketing and Administrative	14.4%	$1,035,519	958,189	814,459	776,668	655,040
Gain on Business Restructuring, Net		$ —	—	—	35,540	—
Gain on Sale of Investment Interest		$ 80,642	—	—	—	—
Interest Expense, Net	6.3%	$ 26,995	27,240	26,845	24,603	20,414
Income Taxes	11.8%	$ 213,642	158,390	143,929	145,636	118,868
Income from Continuing Operations Before Accounting Changes	13.9%	$ 297,233	242,598	219,528	215,882	171,054
Net Cumulative Effect of Accounting Changes		$ (103,908)	—	—	—	—
Discontinued Operations		$ —	—	—	—	—
Net Income	6.8%	$ 193,325	242,598	219,528	215,882	171,054
Income Per Share:						
From Continuing Operations Before Accounting Changes[b]	14.4%	$ 3.31[g]	2.69	2.43	2.39[h]	1.90
Net Cumulative Effect of Accounting Changes		$ (1.16)	—	—	—	—
Net Income[b]	7.2%	$ 2.15[g]	2.69	2.43	2.39[h]	1.90
Weighted Average Shares Outstanding[b]		89,757	90,186	90,186	90,186	90,186
Dividends Paid on Common Stock	9.4%	$ 84,711	77,174	70,426	74,161[d]	55,431
Per Share[b]	12.0%	$ 1.140	1.030	.940	.990[d]	.740
Dividends Paid on Class B Common Stock		$ 15,788	14,270	12,975	13,596[d]	10,161
Per Share[b]		$ 1.035	.935	.850	.890[d]	.665
Income from Continuing Operations Before: Interest, Income Taxes and Accounting Changes as a Percent of Net Sales		13.1%[c]	13.3%	13.5%	12.9%[e]	12.8%
Accounting Changes as a Percent of Net Sales		7.4%[c]	7.5%	7.6%	7.2%[e]	7.1%
Depreciation	18.3%	$ 100,124	84,434	72,735	61,725	54,543
Advertising	7.8%	$ 130,009	137,631	117,049	146,297	121,182
Promotion	18.9%	$ 444,546	398,577	325,465	315,242	256,237
Payroll	9.2%	$ 469,564	433,162	398,661	372,780	340,129
Year-end Position and Statistics[a]						
Working Capital	(8.9)%	$ 75,151	203,039	273,747	320,552	281,821
Capital Additions	11.4%	$ 211,621	249,795	226,071	179,408	162,032
Total Assets	12.0%	$2,855,091	2,672,909	2,341,822	2,078,828	1,814,101
Long-term Portion of Debt	4.5%	$ 165,757	174,273	282,933	273,442	216,108
Stockholders' Equity	9.0%	$1,412,344	1,465,279	1,335,251	1,243,537	1,117,050
Current Ratio		1.1:1	1.3:1	1.6:1	1.9:1	2.0:1
Capitalization Ratio		27%	27%	22%	19%	17%
Net Book Value Per Share[b]	9.8%	$ 16.12	16.25	14.81	13.79	12.39
Operating Return on Average Stockholders' Equity		17.8%	17.3%	17.0%	16.6%	16.1%
Operating Return on Average Invested Capital		15.0%	14.4%	13.8%	13.4%	13.2%
Full-time Employees at Year-end		14,300	13,700	14,000	12,700	11,800
Stockholders' Data						
Outstanding Shares of Common Stock and Class B Common Stock at Year-end[b]		87,613	90,186	90,186	90,186	90,186
Market Price of Common Stock at Year-end[b]	16.7%	$ 49	47	44 3/8	37 1/2	35 7/8
Range During Year[b]		$55 7/8–43 1/2	48 3/8–38 1/4	44 1/2–35 1/8	39 5/8–28 1/4	36 7/8–24 3/4

Notes:

(a) All amounts for years prior to 1988 have been restated for discontinued operations, where applicable. Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the 1988 gain and 1985 loss on disposal included in Discontinued Operations, the 1993 Net Cumulative Effect of Accounting Changes, and the after-tax impacts of the 1990 Gain on Business Restructuring, Net, and the 1993 Gain on Sale of Investment Interest in Freia Marabou a.s (Freia).

(b) All shares and per share amounts have been adjusted for the three-for-one stock split effective September 15, 1986 and the two-for-one stock split effective September 15, 1983.

(c) Calculated percent excludes the Gain on Sale of Investment Interest in Freia. Including the gain, Income from Continuing Operations Before Interest, Income Taxes and Accounting Changes as a Percent of Net Sales was 15.4% and Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 8.5%.

(d) Amounts included a special dividend for 1990 of $11.2 million or $.15 per share of Common Stock and $2.1 million or $.135 per share of Class B Common Stock.

1988	1987	1986	1985	1984	1983
2,168,048	1,863,816	1,635,486	1,526,584	1,423,396	1,280,379
1,326,458	1,149,663	1,032,061	982,370	934,817	844,488
575,515	468,062	387,227	345,299	309,587	270,472
—	—	—	—	—	—
—	—	—	—	—	—
29,954	22,413	8,061	10,240	8,325	14,602
91,615	99,604	100,931	91,910	82,986	70,123
144,506	124,074	107,206	96,765	87,681	80,694
—	—	—	—	—	—
69,443	24,097	25,558	15,462	21,001	19,472
213,949	148,171	132,764	112,227	108,682	100,166
1.60	1.38	1.15	1.03	.93	.86
—	—	—	—	—	—
2.37	1.64	1.42	1.19	1.16	1.07
90,186	90,186	93,508	94,011	94,011	94,011
49,433	43,436	40,930	37,386	37,073	34,470
.660	.580	.520	.475	.413	.367
9,097	8,031	7,216	6,556	1,607	—
.595	.525	.472	.428	.105	—
12.3%	13.2%	13.2%	13.0%	12.6%	12.9%
6.7%	6.7%	6.6%	6.3%	6.2%	6.3%
43,721	35,397	31,254	28,348	22,725	18,594
99,082	97,033	83,600	77,135	71,070	61,274
230,187	171,162	122,508	105,401	94,921	78,773
298,483	263,529	238,742	222,267	208,395	195,254
273,716	190,069(f)	174,147	225,345	187,642	191,435
101,682	68,504	74,452	61,361	45,258	71,697
1,764,665	1,544,354	1,262,332	1,116,074	1,052,161	920,329
233,025	280,900	185,676	86,986	103,155	106,543
1,005,866	832,410	727,941	727,899	660,928	596,037
1.8:1	1.7:1(f)	2.0:1	2.4:1	2.1:1	2.6:1
22%	27%	21%	12%	14%	16%
11.15	9.23	8.07	7.74	7.03	6.34
17.5%	19.0%	18.2%	17.2%	17.3%	17.8%
13.3%	13.5%	13.5%	13.5%	13.5%	13.8%
12,100	10,540	10,210	10,380	10,150	9,630
90,186	90,186	90,186	94,011	94,011	94,011
26	24 1/2	24 5/8	17 1/8	12 7/8	10 1/2
28 5/8–21 7/8	37 3/4–20 3/4	30–15 1/2	18 3/8–11 5/8	13 3/4–9 3/8	11 5/8–8 1/8

(e) Calculated percent excludes the Gain on Business Restructuring, Net. Including the gain, Income from Continuing Operations Before Interest and Income Taxes as a Percent of Net Sales was 14.2% and Income from Continuing Operations as a Percent of Net Sales was 7.9%.

(f) Amounts exclude net assets of discontinued operations.

(g) Income Per Share from Continuing Operations Before Accounting Changes and Net Income Per Share for 1993 included a $.45 per share gain on the sale of the investment interest in Freia. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes would have been $2.86.

(h) Income Per Share from Continuing Operations and Net Income Per Share for 1990 included a $.22 per share Gain on Business Restructuring, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes and Net Income Per Share would have been $2.17.

Executive Offices
100 Crystal A Drive
P.O. Box 810
Hershey, PA 17033-0810
(717) 534-6799

Transfer Agent and Registrar
Chemical Bank
J.A.F. Building
P.O. Box 3068
New York, NY 10116-3068
(800) 851-4216

Independent Public Accountants
Arthur Andersen & Co.
1345 Avenue of the Americas
New York, NY 10105

Investor Relations Contact
James A. Edris, Director
Investor Relations
100 Crystal A Drive
P. O. Box 810
Hershey, PA 17033-0810
(717) 534-7552

Form 10-K
Form 10-K, filed annually in March with the Securities and Exchange Commission, is available without charge by contacting:

Office of the Corporate Secretary
Hershey Foods Corporation
P.O. Box 810
Hershey, PA 17033-0810
(717) 534-7527

Annual Meeting
The Annual Meeting of Stockholders will be held at 2:00 p.m. on Monday, April 25, 1994, at the Hershey Theatre, located one-half block east of Cocoa Avenue on East Caracas Avenue, Hershey, Pa. A formal notice of this meeting, together with a proxy statement, will be mailed to stockholders on or about March 14, 1994.

Hershey Foods Corporation
Hershey, Pennsylvania 17033, U.S.A.